IDEAS TO RE-CENTER AMERICA

FROM

THE NEW CENTER

About the New Center

The New Center is focused on creating the political space and intellectual basis for a viable political center in today's America. The project is co-chaired by Bill Galston, a senior fellow with the Brookings Institution and Bill Kristol, the founder and editor-at-large of *The Weekly Standard*.

In November 2016, Galston and Kristol penned a joint memo in which they made "the case for a New Center, one that does not split the difference between Left and Right, but offers a principled alternative to both."

In subsequent months, Galston and Kristol convened an array of thinkers and leaders from across the political spectrum to help define the values and policies that can animate the New Center. The result is this booklet, *Ideas to Re-center America*.

IDEAS TO RE-CENTER AMERICA

FROM THE NEW CENTER

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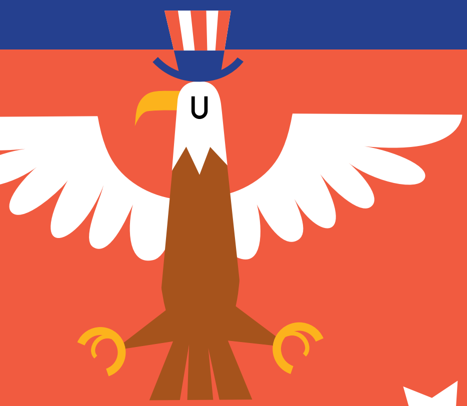
The Center Must Hold



Today we present some bold new ideas for re-centering America. We know that our politics have gotten off kilter. As the parties have become more polarized and our politics more partisan, the great American majority—which wants to see cooperation and compromise—has been left with no good choices.

As a result, problem solving has given way to ideological gestures while more and more problems—from immigration to the budget and taxes—fester in Washington gridlock.

Hyperpartisanship is not the only force thwarting progress. Too often our governing institutions are stuck in the mindset of the past, ignoring the vast changes that have occurred in the last 50 years. Old political fights from the 1970s and 1980s are recycled. One group holds up the banks as the economy's dominant evil, another pretends that recreating factory jobs will be the cure for all our ills.

There are genuine grievances, to be sure. Both parties looked the other way as excesses grew in our financial systems. Neither party paid attention as vast portions of our country's heartland suffered. But the backward-looking shadow boxing that dominates our politics ignores the obvious: We live in a new America transformed by globalization and technology.

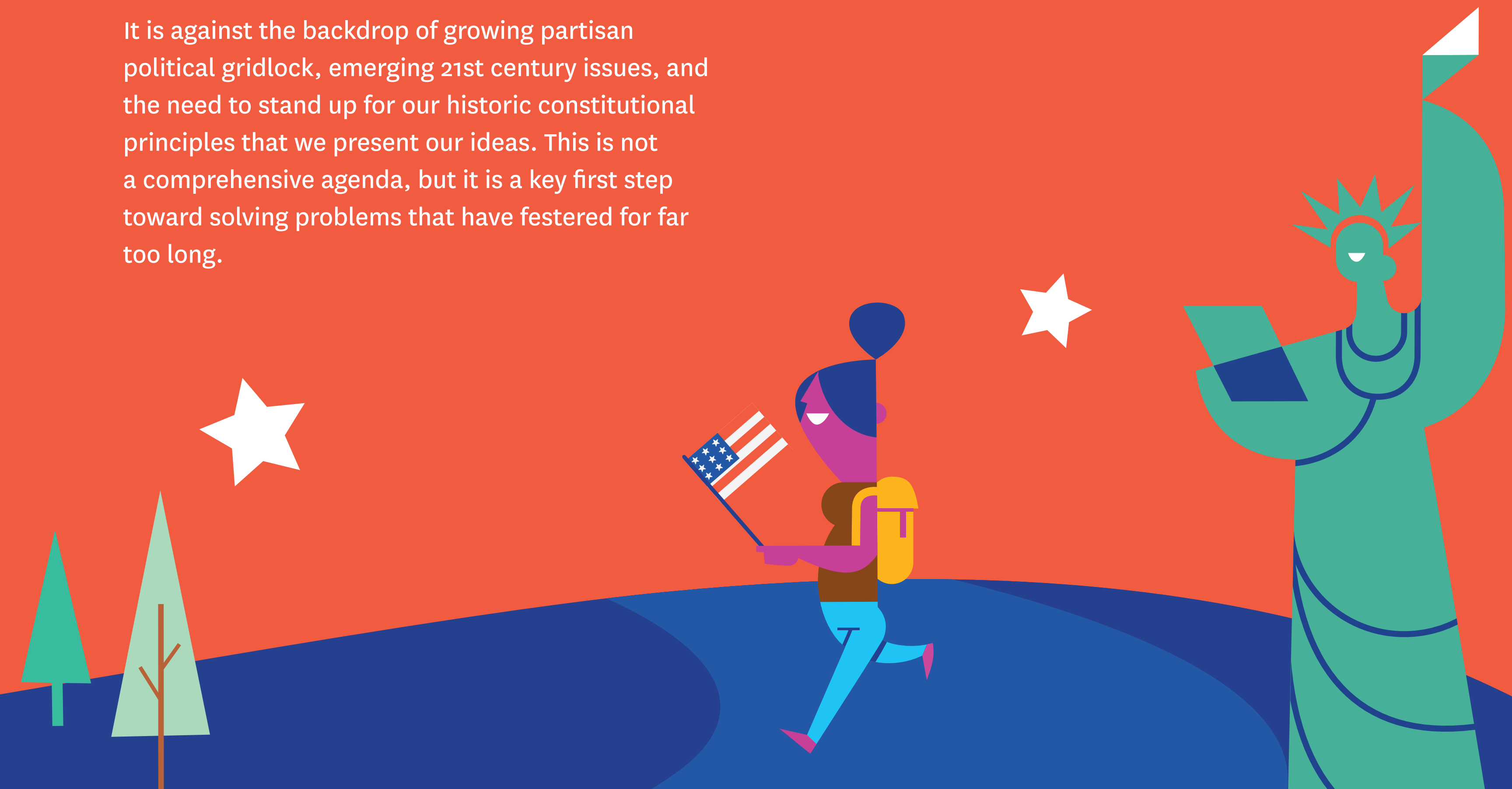
Today the rising centers of the economy will less often be found in the highly regulated banks, or in corporations offering traditional goods and services. Growth is more often driven by entrepreneurs in Silicon Valley, which has spawned nearly 100 billionaires and where the drive for mega-earnings creates companies that dwarf the old economy giants in size and power. Although trade has opened new doors for companies, they are often parking the profits overseas rather than investing them at home. And while innovation helps the economy as a whole, for the most part the gains have not reached average families struggling to make ends meet. Too often the new jobs in this new economy are part-time, lower-pay, and service-oriented, lacking the safeguards and opportunities these workers need to succeed.

To achieve opportunity and inclusion for all, we must strive for a society that takes equality of opportunity seriously and promotes it for everyone. This is why equal access to good schools and to the even-handed administration of justice in our courts and on our streets is so important. The politics of equal opportunity relies on equal citizenship, freedom of expression and religion, the rule of law, and mutual forbearance among people of different colors, creeds, and identities.

It is against the backdrop of growing partisan political gridlock, emerging 21st century issues, and the need to stand up for our historic constitutional principles that we present our ideas. This is not a comprehensive agenda, but it is a key first step toward solving problems that have festered for far too long.

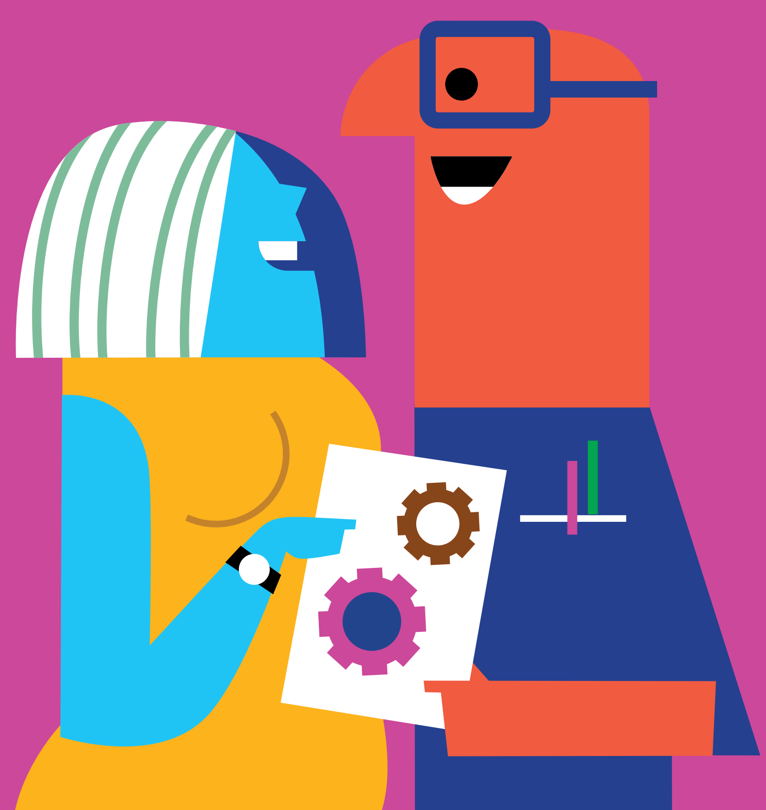
For example: Despite an economic recovery that has entered its 9th year, too many Americans who could contribute to our economy remain outside the workforce. Despite more than a decade of legislative efforts, our immigration system remains in chaos. Thirty years after the Reagan-era tax reform and the start of a long decline in infrastructure investments, the tax code and infrastructure plan we need to jump-start economic growth remain distant dreams obstructed by partisanship and special interests. While the Chinese are stealing the fruits of our technology, Silicon Valley itself is quickly becoming a valley of huge economic titans that if left unchecked could threaten the robust small business formation and entrepreneurial spirit upon which our economy depends.

The ideas we advance represent a New Center for American politics, a politics that reflects both our enduring principles and the new circumstances we confront. In place of a politics stuck in the past, we offer an agenda re-centered in the future—not a tepid compromise between Left and Right, but a new way toward the stronger economy, more inclusive society, and more effective politics that we all want for the country we love.



New Center Values

The ideas in this booklet are informed by four core values that animate the New Center.



OPPORTUNITY

All Americans should be able to go as far as their gifts and drive can take them.

SECURITY

If opportunity is a distinctive principle of American government, security is a basic purpose of every government. The reasons are clear: Not only do all people crave safety and stability, but also a lack of security generates fear. A fearful people cannot face the future with confidence.

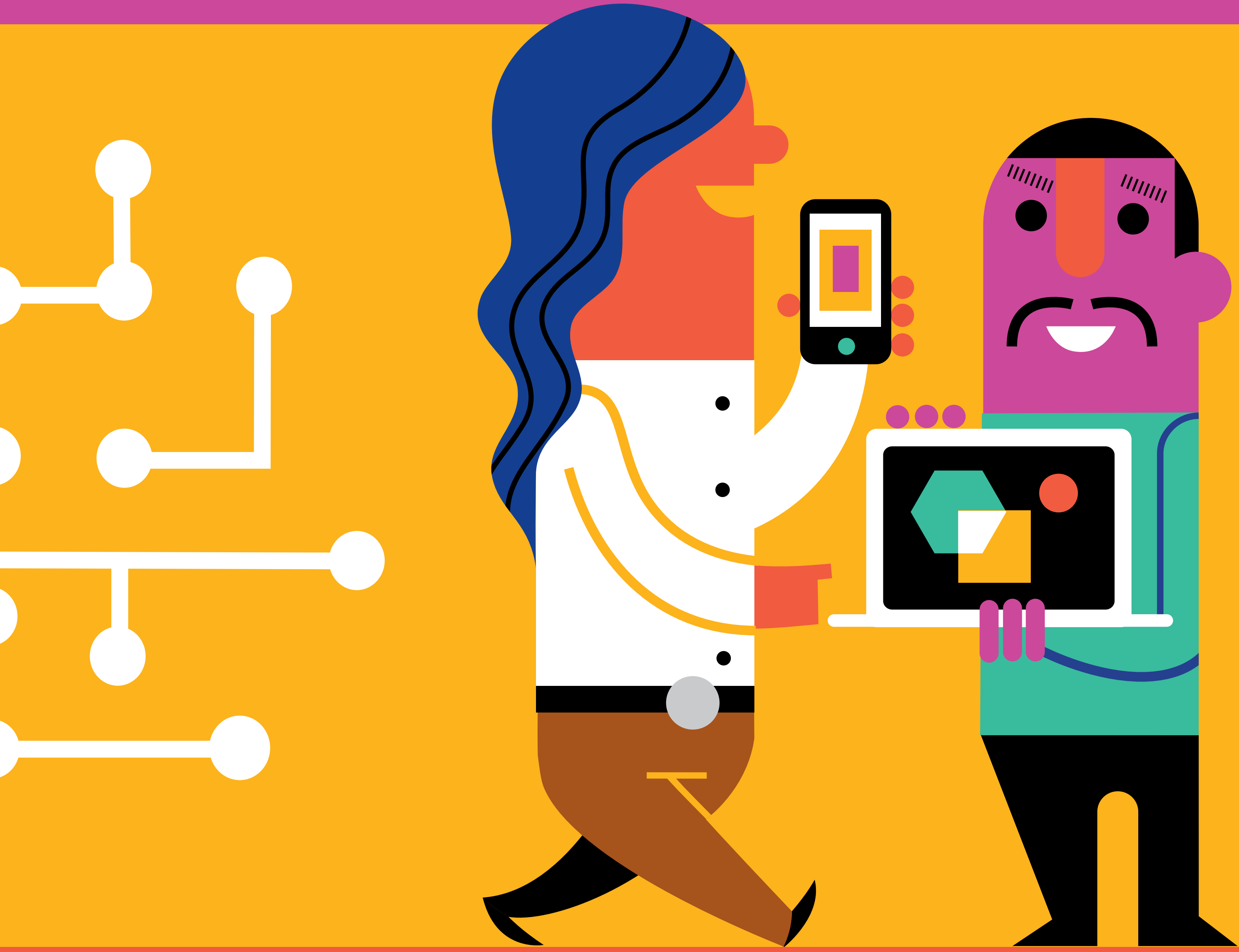
INGENUITY

As Americans, we see ourselves as problem solvers and we've solved a lot of them over the centuries. If machines aren't working, we fix them, and similarly for our institutions and policies. The American ingenuity that has produced a stream of world-changing inventions can also reshape the way we govern ourselves and solve serious societal challenges.

ACCOUNTABILITY

Individuals must be personally accountable for their own successes and failures. At the same time, institutions—both public and private—must be held to account when they act without regard to the public good or lack the competence to promote it.

Challenging the Titans of Technology

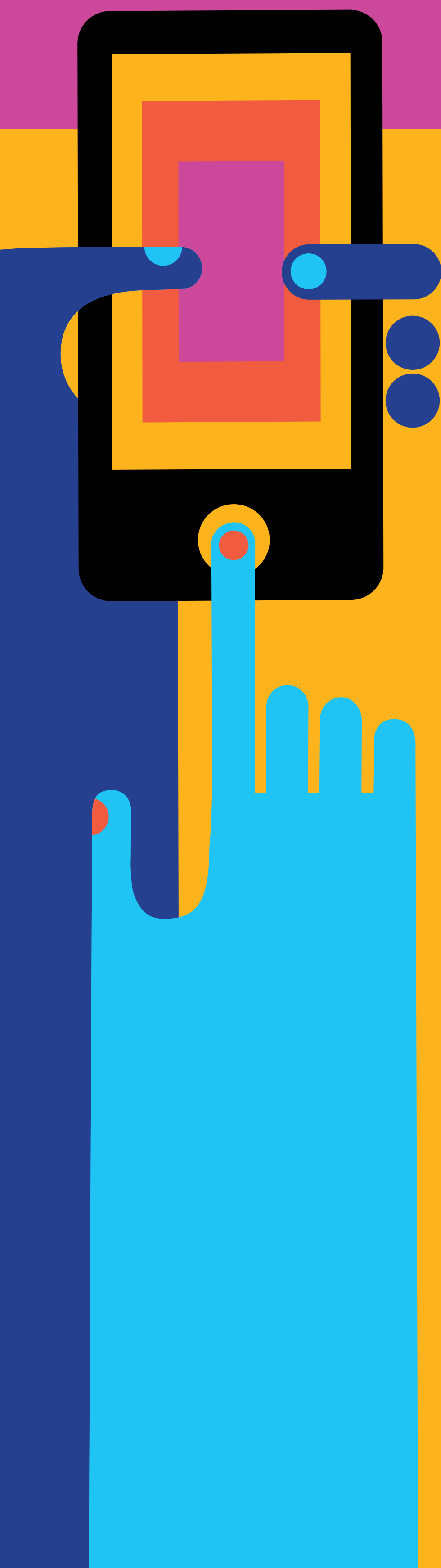


IDEA SECTION ONE

We love the ease with which Google enables us to search, Amazon to buy and Facebook to connect. But does the growing dominance of these technology companies—and the platforms they control—come at a hidden cost to workers, consumers and our economy?

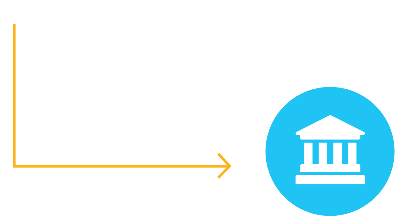
A growing body of research suggests it does.

The Big Picture



America's five largest technology companies—Apple, Alphabet (parent company of Google), Amazon, Facebook and Microsoft—dominate the economy and their respective markets like few businesses in the modern era.

THESE FIVE TECH COMPANIES are together almost three times the size of America's five largest banks combined: **GOLDMAN SACHS, JP MORGAN, WELLS FARGO, BANK OF AMERICA, CITIGROUP**



FACEBOOK

OWNS 77%
of mobile social traffic

Controls the social feed of **2 BILLION** active monthly users—nearly **1/4** of the world's population

ALPHABET (GOOGLE)

OWNS OVER 81%
of the search engine market

OWNS 54%
of search advertising

AMAZON

ONE OUT OF EVERY TWO DOLLARS spent online goes through Amazon

FACEBOOK & GOOGLE

Accounted for **99%** of revenue growth from digital advertising in 2016

APPLE & GOOGLE

Provide the operating systems for **90%** of the world's smartphones

MICROSOFT

Controls almost **90%** of the operating system market

The Problem

Monopolistic behavior is a growing trend in many sectors of the economy, but the challenge is particularly acute in technology, where industry behemoths inhibit innovation, block competition, threaten consumer privacy, and contribute to growing income inequality.

Just a few years ago, companies like Amazon, Google and Facebook were scrappy upstarts, creating new industries and disrupting the old ways. Today, emerging research suggests these companies are preventing other new businesses from doing the same thing.

In previous eras, a robust legislative or regulatory response to concentrated corporate power was often spurred by widespread public anger. But the Big Five technology companies are viewed favorably by many consumers, with each in the top 10 of Fortune's annual list of the World's Most Admired Companies.

And why shouldn't they be? Each has pioneered world-changing innovations and created great fortunes and great jobs. If you are one of the millions who own an S&P 500 index fund in your 401(k), you can thank the Big Five technology companies for as much as a third of the fund's recent gains.

These companies have competed and acted in their interests, which is exactly what we expect in a free market system. But as these companies have grown, they have also become more prone to engage in the grungier anti-competitive practices that the public and political leaders decry when practiced in other industries.

In recent years, large technology companies have been investigated for colluding with a secret agreement not to hire one another's best workers; fined billions of dollars for unfairly favoring certain services on their platforms over other rivals; and been accused of mishandling sensitive consumer information or of obtaining new customers under false pretenses.

Government can't be expected to sit idly by if the size and power of certain companies begin threatening the vigorous competition and innovation upon which any healthy economy depends.

The power of technology companies presents government with a challenge very different from the corporate monopolies of old. These companies don't just dominate a commodity, as Standard Oil did before it was broken up by the Supreme Court in 1911, or physical infrastructure, as AT&T did with telephone lines before it was split into the "Baby Bells" in 1984. They own an unprecedented amount of data, the most valuable asset in the world today. And the more data they own, the more powerful they become.

Successful market economies require new companies willing to challenge the status quo and find new answers to old problems. The New Center must clear the path.

FACTORS

BIG TECH IS KILLING THE MEDIA BUSINESS

While profits at technology companies have soared, revenues in media businesses, such as newspapers and music, have dropped 70 percent.

GROWTH BY INNOVATION OR LITIGATION?

In 2012, it was reported that Apple and Google's spending on patent lawsuits and patent acquisitions exceeded spending on research and development of new products.

ANATOMY OF A BIG TECH TAKEOVER

In the mid-2000s, online shoe retailer Zappos declined Amazon's offers to buy the company.

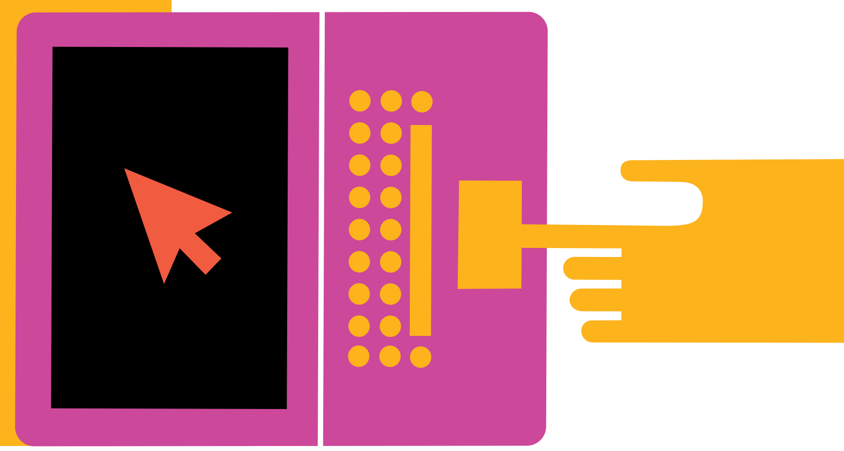
Amazon subsequently launched a competing shoe business to steal market share from Zappos, with prices ensuring Amazon would lose money on sales.

Zappos couldn't compete with Amazon's deep pockets. Zappos agreed to sell to Amazon in 2009.

"Predatory pricing," of the type Amazon exhibited with Zappos, used to be a core objective of antitrust enforcement. But not lately.

Solutions

Only two of the five largest technology companies even existed 25 years ago. Unsurprisingly, regulators and legislators have usually played catchup in their attempts to govern these businesses, which pioneered new industries. It is time to reinvent antitrust policy for the digital age.



BETTER LAWS

The major U.S. laws governing competition—such as the Sherman Act of 1890—were passed over a century ago. Items for possible inclusion in new legislation could include:

- Addressing the ways that digital companies are using network effects to crowd out potential competitors.
- Redefining and cracking down on predatory pricing practices.
- Tougher scrutiny of mergers that threaten competition within sectors.
- Taking seriously the anti-competitive effects of vertical integration.
- Enacting new rules and procedures to speed antitrust litigation, which sometimes drags on for a decade or more.
- Exploring the use of free services to disguise monopolistic advertising practices.

AT&T, AN ANALOGUE SOLUTION FOR OUR DIGITAL ECONOMY

In 1956, the U.S. Justice Department allowed AT&T to maintain its phone monopoly in exchange for a large concession: AT&T would have to license any past patents royalty-free to any U.S. company. It had to license future patents for a small fee.

These licenses helped spur the creation of Motorola, Fairchild Semiconductor and Texas Instruments, among others. The government might consider a similar action with today's tech behemoths.

BETTER ENFORCEMENT

In 1997, the U.S. Justice Department sued Microsoft, claiming it was illegally leveraging its dominant operating system to “develop a chokehold” on the internet browser software market. The government has brought no case of similar size and impact in the last 20 years.

The decline in antitrust enforcement can be traced back to a legal theory first popularized by Robert Bork—the University of Chicago professor and later Supreme Court nominee—that the government should only be concerned with inhibiting a company’s size if it is harming “consumer welfare,” which has in practice meant government being hands off so long as prices are low.

Since many big technology companies have, to date, delivered lower-cost or even free services, they’ve escaped scrutiny even while violating consumer privacy and hindering competition.

SAFE HARBOR OR IMPENETRABLE MOAT?

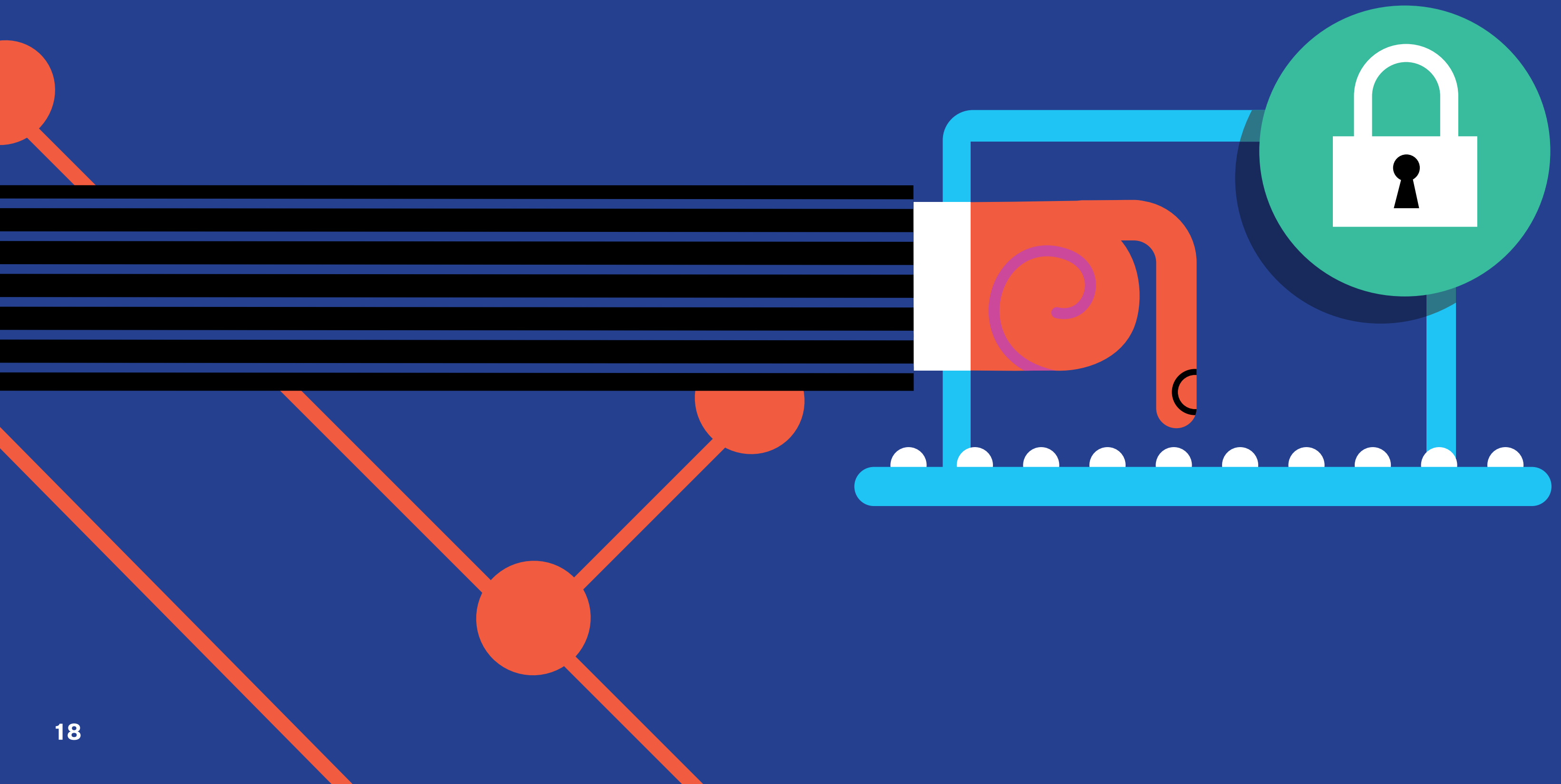
In 1996, Congress passed a “Safe Harbor” provision to prevent early internet companies from litigation—so, for example, a company like AOL could not be held liable if someone posted offensive material on one of its chat boards. It was a critical safeguard allowing the nascent internet economy to grow.
But Congress should look at whether big technology companies are now using “Safe Harbor” to evade accountability and crush competition.

History shows that effective antitrust enforcement can spur innovation and even the development of entirely new economic sectors. The 1956 AT&T consent decree helped open the door for the creation of Silicon Valley. In the 1970s, the Justice Department’s challenge to IBM’s vertical monopoly in the computer business cleared the way for Microsoft. A generation later, antitrust action against Microsoft enabled the rise of Google.

We should not forget this history; we should learn from it. Done right, 21st century antitrust policy can once again spur innovation, growth, and opportunity in the U.S. economy.

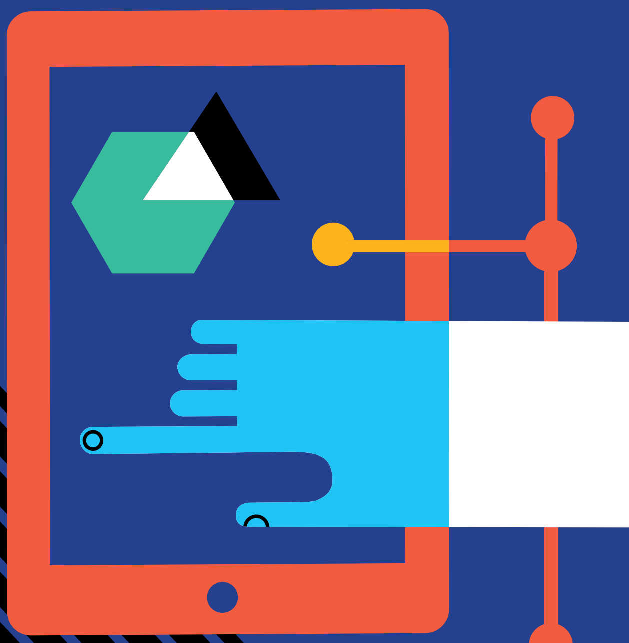
Secure the Crown Jewels:

Protecting American at Home & Abroad



Innovation

IDEA SECTION TWO



$600 Billion:

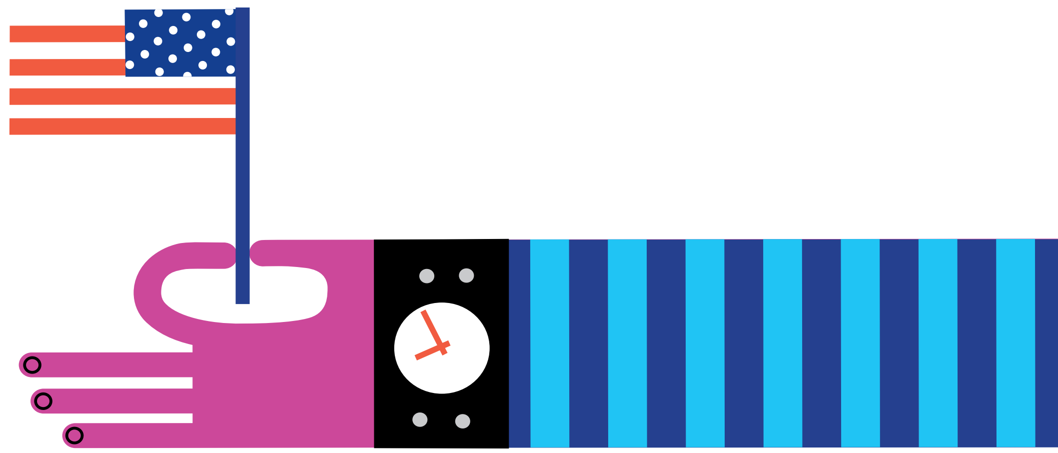
The uppermost estimate for how much counterfeit goods, pirated software and stolen trade secrets cost the U.S. every year.

For a country that values innovation as much as America, it is shocking that the federal government does not do more to protect and promote it.

The Problem

"It's the greatest transfer of wealth in history."

Gen. Keith Alexander, former head of the U.S. National Security Agency, describing Chinese theft of U.S. intellectual property.



Every day, the crown jewels of the U.S. economy—our intellectual property—are being stolen by America's economic competitors. China is the main culprit, and the theft goes well beyond pirated DVDs.

This is theft of the very secrets—like product designs, manufacturing and engineering processes—that allow a company to establish and maintain a competitive advantage. When that advantage is lost, so too are the sales and the jobs that depend on it.

Just as concerning as the illegal theft of U.S. IP is the voluntary legal transfer of ideas and technologies from U.S. companies to foreign companies, many of them linked to the Chinese government.

U.S. companies are trading the short-term gain of access to China's huge consumer market for the long-term loss of competitive advantage in areas ranging from renewable energy and electric cars to microchips, smart phones and cloud computing.

While the federal government has failed to properly safeguard U.S. IP assets abroad, it has also failed to promote innovation at home.

Federal investments in basic research—the kind of exploration that is often too risky or expensive for the private sector—has dropped to a historic low as a share of our economy and of the federal budget. Meanwhile, the U.S. patent system—which grants all-important intellectual property rights to inventors—is a bureaucratic and legal mess.

Collectively, these problems paint the picture of a federal government that is not summoning the political will or the resources to protect and promote U.S. innovation.

The Problem

PROTECTING INNOVATION ABROAD

THE CHINA COST

In a recent survey conducted by the FBI of 165 private U.S. companies, half said they had been victimized by economic espionage or theft of trade secrets, most of it emanating from China.

Products from China account for more than three-fourths of the value of all infringing and counterfeit products seized by U.S. Customs.

Chinese IP-theft has cost at least 2 million American jobs.

HOW IT'S DONE

Theft

In 2016, U.S. Steel filed a complaint with the International Trade Commission alleging that Chinese hackers stole secret methods for making lightweight steel in an effort to help Chinese steel producers get a larger share of the U.S. auto market. According to a report in *The Wall Street Journal*, "The plans that U.S. Steel says were stolen included the chemistry for the alloy and its coating, the necessary temperature for heating and cooling the metal, and the layout of production lines."

Transfer

China frequently offers admission to its huge consumer market at a heavy price. It will allow a U.S. company to enter the Chinese market, but only if the company partners with a Chinese company and shares key technology. Should a company refuse this entreaty, China has developed several ways to erect financial, regulatory and licensing barriers that make doing business in China difficult for foreign companies.

PROMOTING INNOVATION AT HOME

GOOD JOBS AND GOOD PAY

Innovation—and the intellectual property that enables it—is the lifeblood of the American economy, supporting 56 million jobs. Companies in IP-intensive industries pay their employees 26 percent more than workers with non-IP intensive companies.

BASIC R&D

Federal research spending as a share of the U.S. economy is as low as it has been in the modern era. Here's why that's a problem: In the 20th century, basic government research spurred breakthrough technologies ranging from semiconductors, GPS and the Internet to memory foam mattresses and scratch-resistant lenses.

Government research funding also helped develop the seismic modeling technology and horizontal drilling techniques that have turned America into the "Saudi Arabia of natural gas."

A PATENT SYSTEM IN DISARRAY

Patents provide the legal protection that gives intellectual property its value. But there is widespread agreement that the United States patent system is ineffective, inefficient and harming economic growth. Among the most notable problems:

- Although the U.S. Patent and Trademark Office has made great progress in recent years in improving the speed of its patent review process, there is still a backlog of over 500,000 patent applications waiting to be reviewed.
- 95 percent of U.S. patents are never licensed for use, which translates to legions of new businesses or new products that never get created.
- Patent lawsuits—often brought by "patent trolls"—have increased by a factor of six since 1980.

Solutions

IP Theft and Transfer

REAL PENALTIES FOR IP-THEFT

Tariffs are the nuclear option of international trade and can spur a counterproductive trade war. But China and other countries must understand there are real consequences for violating U.S. intellectual property protections. Two measures passed by Congress in the 1970s—Section 301 of the Trade Act of 1974 and the International Emergency Economic Powers Act—provide the president broad latitude to investigate trade practices that are harmful to the U.S. and to impose sanctions.

GET SERIOUS ABOUT CYBERSECURITY

In 2015, the U.S. Congress passed cybersecurity legislation to significantly enhance information sharing between government and businesses on cyber threats. But legislative passage took years. Since intellectual property is frequently stolen through online breaches, the entire U.S. government must move more quickly to deal with the threat. For example, Washington must soon act to develop cyber standards for the fast-evolving "Internet of Things."

SHUT DOWN TECH TRANSFER DEMANDS

The U.S. should not allow any nation to require U.S. firms to transfer control of their technology as a condition of doing business in that country. To enforce this principle, the U.S. government should use all the tools at its disposal—and ask the Congress for new authority if existing laws are inadequate. One idea would be to reform the rules governing the Committee on Foreign Investment in the U.S. so it could stop, on national security grounds, joint ventures of U.S. companies in China and stop M&A in the U.S. by foreign state-owned enterprises.

Basic R&D

MORE FUNDING

In 2011, Congress passed the Budget Control Act—commonly known as the "sequester"—which slashed discretionary spending across the federal government, with little consideration for the effectiveness of affected programs. Economic returns from basic government research are so significant—with a $1 investment in basic government research spurring over $8 in additional industry investment—that Congress should restore and increase basic research funding.

STICK TO THE BASICS

Studies have shown economic returns are highest from basic government research as opposed to applied research. Applied research—which many critics characterize as the government "picking winners and losers"—is usually best left to the private sector. The government should focus where it adds the most value.

The Patent System

PASS PATENT REFORM

In the last two sessions of Congress, 22 different patent reform bills were proposed. Each one failed. America's patent system is so dysfunctional that it effectively acts as a "tax on innovation," protecting incumbent companies able to pay exorbitant legal fees and crowding out entrepreneurs and inventors. In 2015, *The Economist* laid out a sensible series of principles to guide patent reform efforts:

- Patents should come with a blunt "use it or lose it" rule, so they expire if the invention is not brought to market.
- Patents should also be easier to challenge without the expense of a full-blown court case.
- The burden of proof for overturning a patent in court should be lowered.
- Patents should reward those who work hard on big, fresh ideas, rather than those who file the paperwork on incremental and inconsequential improvements to existing technology.

America's founders believed intellectual property was important enough to address it in the Constitution, granting Congress the power "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

This protection was important then. It's even more important now. Innovation is indeed the lifeblood of the U.S. economy, and the New Center must stand for a government that protects and promotes innovation with every means at its disposal.

Work Matters

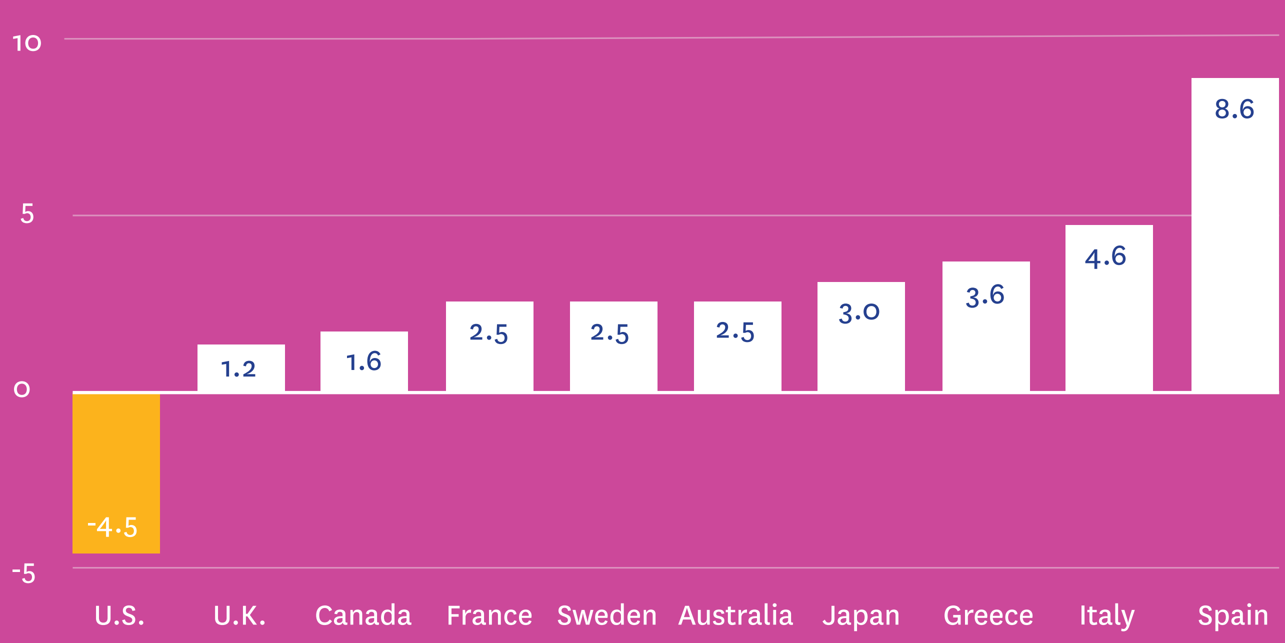
IDEA SECTION THREE

Since 2000, America's labor force participation has declined more than that of any other advanced nation. 10 million Americans who could and should be working are not. That's a national catastrophe.

WHO'S WORKING?

Percent change in labor force participation rate (2000-2015)

SOURCE: OECD



The Problem

In judging the health of the economy, we tend to look at the unemployment rate—namely the percentage of Americans who are actively looking for work. But that figure obscures another statistic that is more revealing. Unemployment is down of late, but something else is growing: the population of Americans who do not work and who do not want to work.

America's labor participation rate has collapsed since the Great Recession and shows little sign of improving.

There are currently 23 million Americans of prime working age who are not working and according to Bureau of Labor Statistics surveys, **90 percent of this group say they don't want to work.**

Roughly half of this group has a perfectly justifiable reason for not working: "home responsibilities," namely people at home raising their children.

But what about the others? Here a more troubling picture emerges. According to noted demographer Nicolas Eberstadt, for every unemployed American man between 25 and 54 years of age who isn't working but is at least looking, there are another three who are neither working nor looking for work.

Plummeting workforce participation isn't just a problem for men either, as U.S. female labor force participation has dropped precipitously since the turn of the decade.

According to the Brookings Institution, "Women with a high school education or less are overwhelmingly the largest group of Americans out of the labor force."

Washington's traditional answer to any employment problem is better training and education. That works for some. But better workforce development programs don't do much for someone who doesn't want to work in the first place.

According to Eberstadt, "If our nation's work rate today were back up to its start-of-the-century highs, well over 10 million more Americans would currently have paying jobs."

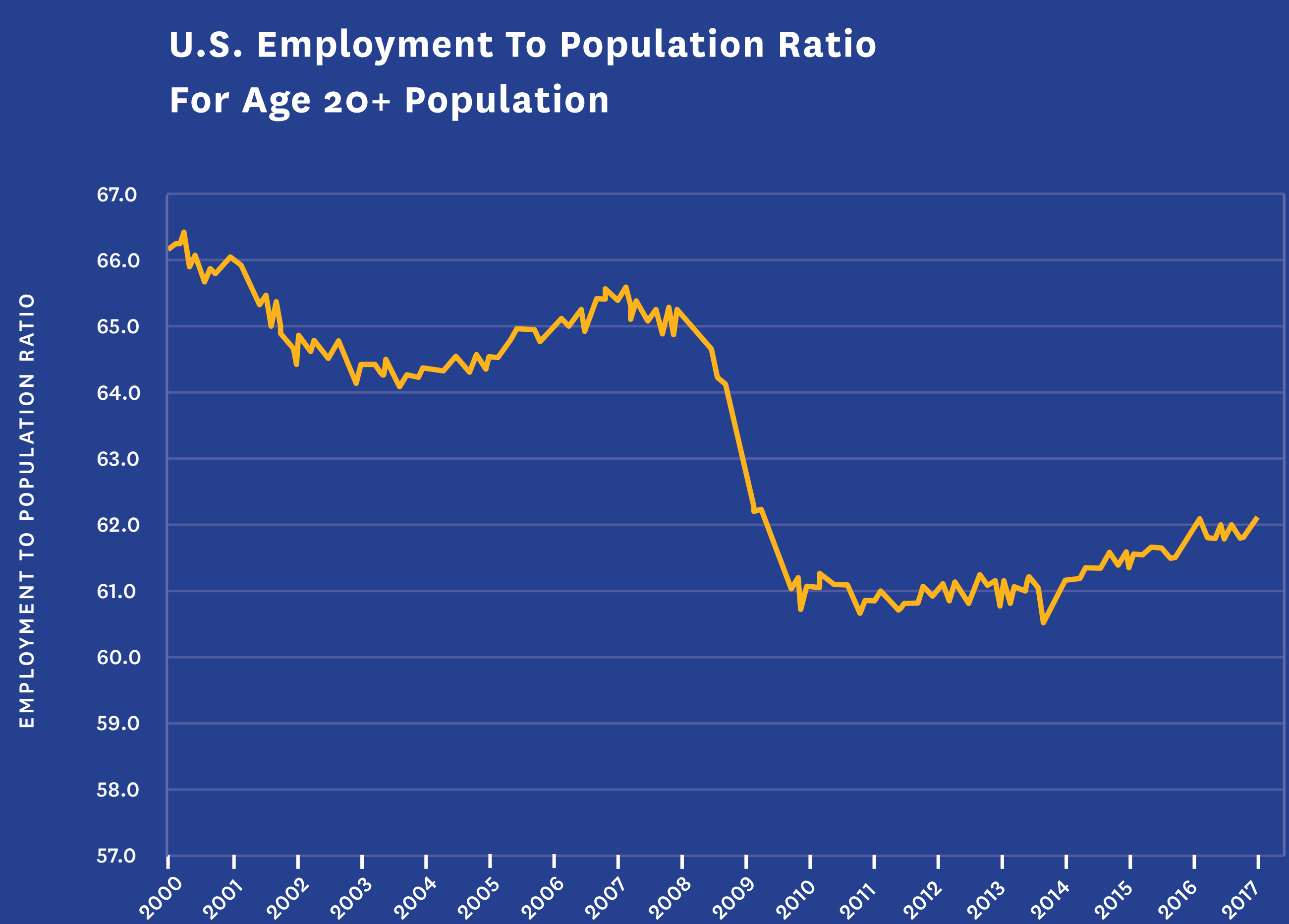
Ultimately, American policymakers are confronted with two difficult but fundamentally different challenges in putting more people to work.

1. A growing slice of the working-age population would work if they could—but, by their own calculations, they can't. Their wages would not cover the costs of childcare. Family obligations do not allow them to relocate to the places where jobs are plentiful. They simply haven't developed skills sufficient to find a job. This group needs to be empowered with better training and better jobs that pull them back into the workforce.

2. At the same time, an even larger slice of Americans could be working but aren't. The explanations vary from case to case. Employers say as many as 25 percent of applicants can't pass a drug test. This group needs a push to get them back to work.

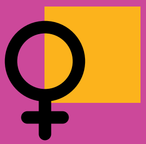
FACTORS

WORKFORCE PARTICIPATION FALLS OFF A CLIFF



AFFECTING MEN

According to Eberstadt, "America is 22nd out of 23 in prime-age male labor-force participation, underperformed only by Italy."



AFFECTING WOMEN

According to the Brookings Institution, "U.S. prime-age female participation fell from 6th to 17th of 22 OECD member countries between 1990 and 2010."

Solutions

The New Center can solve this problem—but only if we divide the challenge into two parts and tackle them in tandem.

PULL

Create More Opportunity

BETTER RETRAINING PROGRAMS

When a local factory moves offshore, national and local leaders are supposed to help workers land new jobs in different industries. But retraining programs have failed to live up to their potential. The New Center should commit to reimagining and refashioning these programs, doing a deep dive into what works and scaling the most successful models.

OFFENDER REENTRY

The criminal justice system is supposed to rehabilitate offenders. But 50 percent of released federal prisoners are eventually reincarcerated. The New Center should revisit the pathway from incarceration to productivity—including reforming the criminal background check system that often brands people with scarlet letters for their entire lives—ensuring that those who have repaid their debt have an opportunity to reach their potential.

CHILDCARE, FAMILY LEAVE, AND FLEXIBILITY

The decline of workforce participation among American women is particularly acute—and at odds with the experience of other advanced industrialized countries. Astronomical childcare costs, a lack of paid family leave, and a dearth of professional opportunities that offer flexible hours are likely culprits. Washington must provide more—in the form of tax credits or funding—to help families deal with these expenses.

HELP STUDENTS FILL THE SKILLS SHORTAGE

In early 2017, there were 6 million job openings even as 6.8 million Americans were looking for work. This is a stark reminder that too many Americans don't currently have the skills employers need. One way to fix this imbalance would be for the federal government to make more of its educational funding (e.g. Perkins loans) conditioned upon students pursuing majors in areas where there are projected future job shortages.

Solutions

PUSH

Demand That Citizens Seize Available Opportunities

Even while we're pulling Americans who want to work into the workforce, we need to push those who could otherwise join the ranks of the employed to do so.

CUT THE FRAUD OUT OF DISABILITY PROGRAMS

During George H.W. Bush's presidency, only 2.5 percent of working-age Americans received disability checks from the Social Security Administration. The figure has now doubled to 5.2 percent.

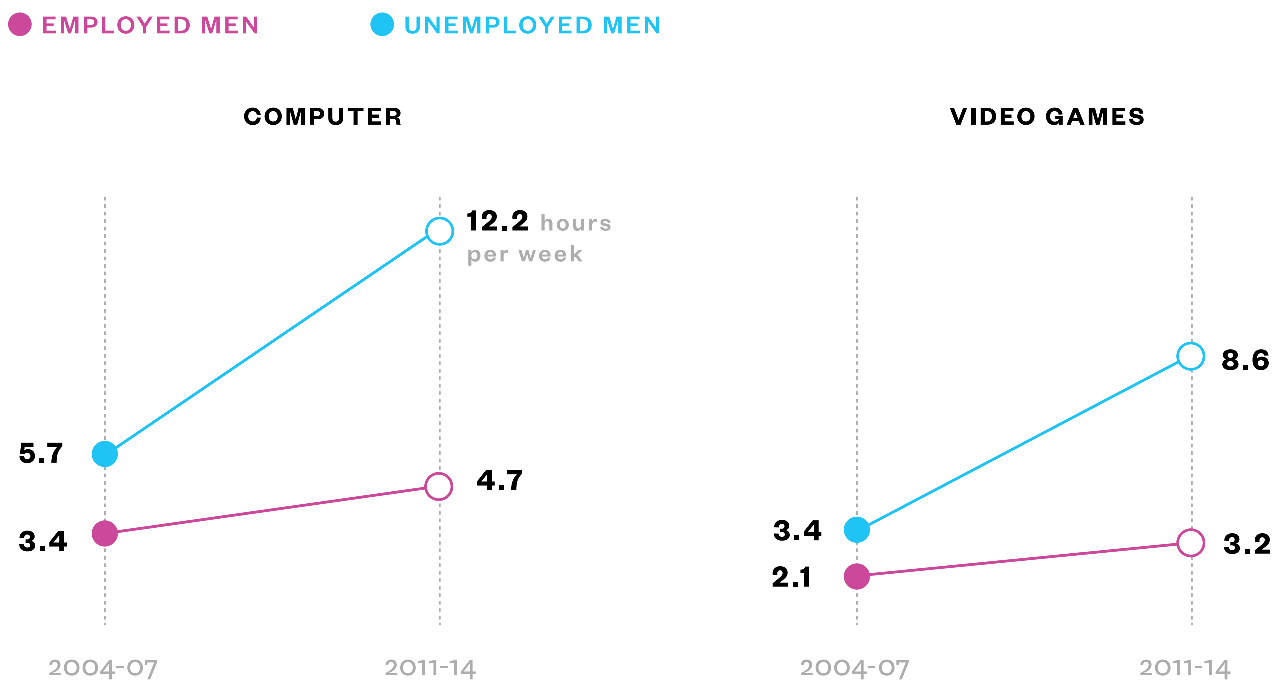
If you're really disabled, you should get taxpayer-funded support. Everyone else should earn their own living.

CALL LAZINESS WHAT IT IS

In 2015, more than one of every five American men without a college degree was both without work and not looking for a job. What are they doing instead? One study found that roughly three-fourths of their time is spent staring at a screen, including an average of nearly nine hours per week playing video games.

Even if these individuals are not "mooching" off anyone else, social science suggests that the failure to contribute correlates with a whole variety of pathologies, including drug use, divorce and depression. The New Center should not be bashful about criticizing individuals who are not carrying their weight.

A Sharp Increase In Screen Time, In Hours Per Week



Note: Data are for men age 21-30 with less than a bachelor's degree. Video game time is included in computer time. Source: Aguiar, Bils, Charles and Hurst. "Leisure Luxuries and the Labor Supply of Young Men." Source: The Washington Post

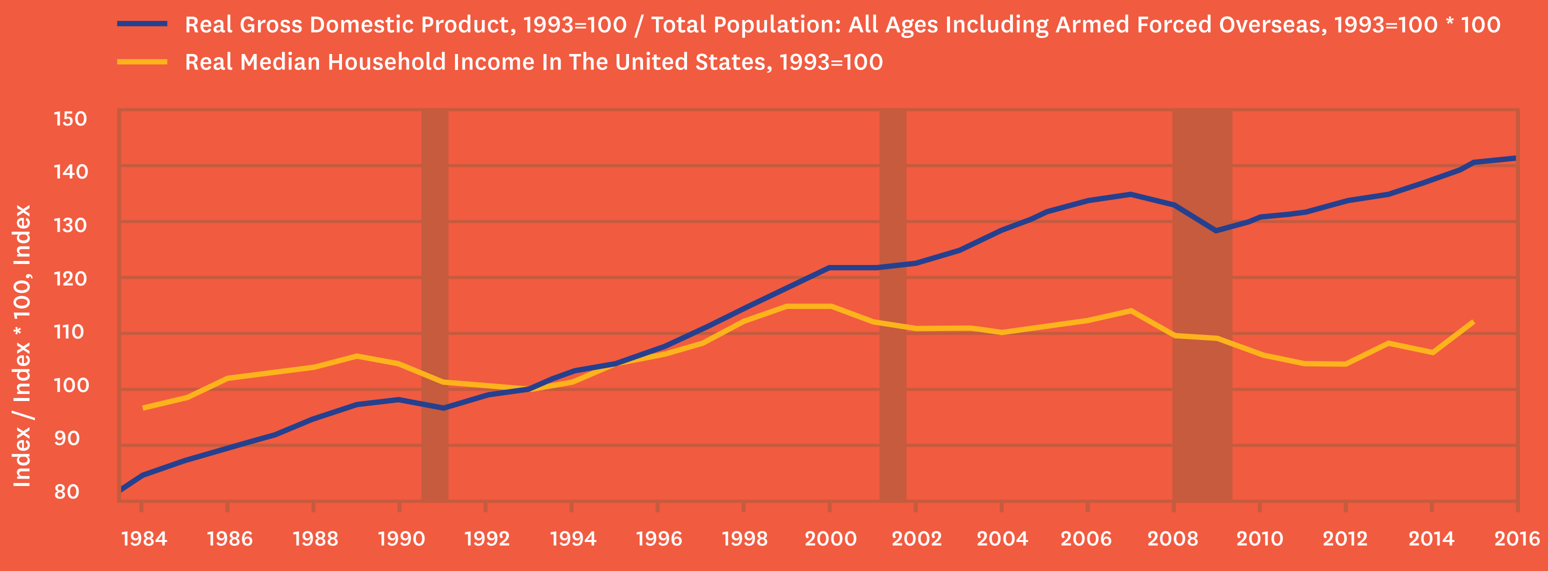
If you can work, Americans think you should. If you can't find work, Americans want you to keep looking. The nation's workforce participation rate may be declining—but it need not be that way. With the right combination of push and pull we can get 10 million more Americans off the couch and into the workforce.

Inclusive Growth

IDEA SECTION FOUR

Hard-working Americans are earning less than they have—and less than they should.

THE ECONOMY GROWS BUT INCOMES DON'T



Shaded areas indicate U.S recessions

Source: U.S. Bureau of the Census

The Problem

Even though a disconcertingly high share of the population is dropping out of the labor force, Americans are still a hard-working people. In fact, Americans work 25 percent more hours than Europeans. But Americans' median income has not kept up with their output—indeed, it has declined. No matter where you fall on the political spectrum, that should be of grave concern.

What may be most concerning is that the decline in median income does not track a variety of other economic indicators. Corporate profits are way up and the S&P 500 stock index has more than tripled since 2009. The economy is growing but many Americans aren't sharing in the gains.

It was once a statement of fact that, as Sen. John F. Kennedy argued while running for president in 1960, "A rising tide lifts all boats." But over the last several decades, the thread sewing together our common fate has begun to fray. During the expansion that spanned from 2002 to 2007, the American economy produced half as many jobs as it had relative to the economy's growth during the 1990s. Worse still, the high-quality manufacturing jobs that once offered many working- and middle-class Americans a healthy wage have been replaced by low-paying service-sector jobs forcing families down the economic ladder.

The American economy is producing more and more—but the benefits are shifting from labor to capital. During the bulk of the 20th century, two-thirds of every dollar a company accrued in income flowed to workers; ownership pocketed the remaining third. More recently however, labor's share of profits has dropped several percentage points to below 60 percent.

In other words, since 2000, American economic growth has become *exclusive* rather than *inclusive*.

FACTORS

WEALTH IS CONCENTRATED

Stocks, bonds and real estate have appreciated significantly in recent years. But most Americans own very little of these assets. According to the Congressional Budget Office (CBO), just 10 percent of U.S. families account for 76 percent of the nation's wealth.

BIG COMPANIES AREN'T NECESSARILY BIG EMPLOYERS

Today, the largest company in the U.S. measured by market capitalization is Apple, a company with 116,000 employees. In 1979, when General Motors boasted the largest market capitalization, the automobile manufacturing behemoth employed 618,365 Americans and 853,000 people worldwide.

MIDDLE CLASS ISN'T GETTING AHEAD

Median income has been flat for nearly two decades.

Solutions

The New Center need not champion labor to the exclusion of capital or capital to the exclusion of labor. But it's time for a recalibration that raises the value of work. Here are several strategies designed to ensure that everyone gets a piece of the upside of economic growth.

INCOME IS INCOME, SO TAX IT THAT WAY

Today, the profits accrued to owners (through capital gains and dividends) are often taxed at a much lower rate than the salaries earned by workers. That isn't fair—and it's exacerbating the challenge of achieving inclusive growth. The last big tax reform in 1986 equalized the tax treatment of income. So should the next big tax reform.

EXPAND THE EARNED INCOME TAX CREDIT

For all the focus on the minimum wage, the most effective program aiding families struggling to work their way out of poverty is the Earned Income Tax Credit. While the program ensures that many families get money back when filing their taxes, the EITC could be expanded to provide more generous incentives to single, childless adults in particular. Both former President Barack Obama and House Speaker Paul Ryan have expressed support for an EITC expansion. Finding a consensus on how to improve the program should be among the New Center's top priorities.

INCENTIVIZE PROFIT SHARING

Laws and regulations should incentivize employers to give employees a greater stake in their employers' success. Those who work on the front lines could, for example, receive some greater percentage of their income in stock. Washington could provide tax incentives that credit companies some portion of the profits they distribute to employees beneath a certain cap.

INCREASE THE MINIMUM WAGE AND INDEX IT FOR INFLATION

Because the EITC and the minimum wage work together to enhance the value of work, it is important to maintain a balance between them. Excessive reliance on the minimum wage could end up costing jobs for individuals who need them the most, but excessive reliance on the EITC would raise costs for taxpayers and provide wasteful subsidies for low-wage employers.

EXTRACT VALUE FROM BASIC RESEARCH

Each year, the federal government spends billions of dollars on basic research funded across a whole range of agencies. The products and services that emerge from those initial investments are frequently commercialized by private profit-making companies. But while the private sector benefits when a technology like GPS becomes a commercial success, the taxpayers who financed the original research rarely see any return. Government-funded research should not be predicated on the possibility of income. But when there is a commercial success, the original investor (the taxpayer) should get some portion of the upside.

ESTABLISH LIFETIME RETRAINING ACCOUNTS

Americans living in hard luck areas would likely be better equipped to enjoy the fruits of economic growth if they simply moved to regions with booming economies. Why wouldn't unemployed residents of decaying industrial cities or Appalachian towns move to the vibrant cities of the Sunbelt or elsewhere? College graduates move much more frequently than Americans without a college degree. In other words, those who might benefit most from moving aren't sure that their skill sets will translate to a job in a new place; often they don't have the money required to make the transition. The government could establish Lifetime Retraining Accounts that pay for moving and living expenses with loans contingent on an individual's income.

WHY NOT A UNIVERSAL BASIC INCOME?

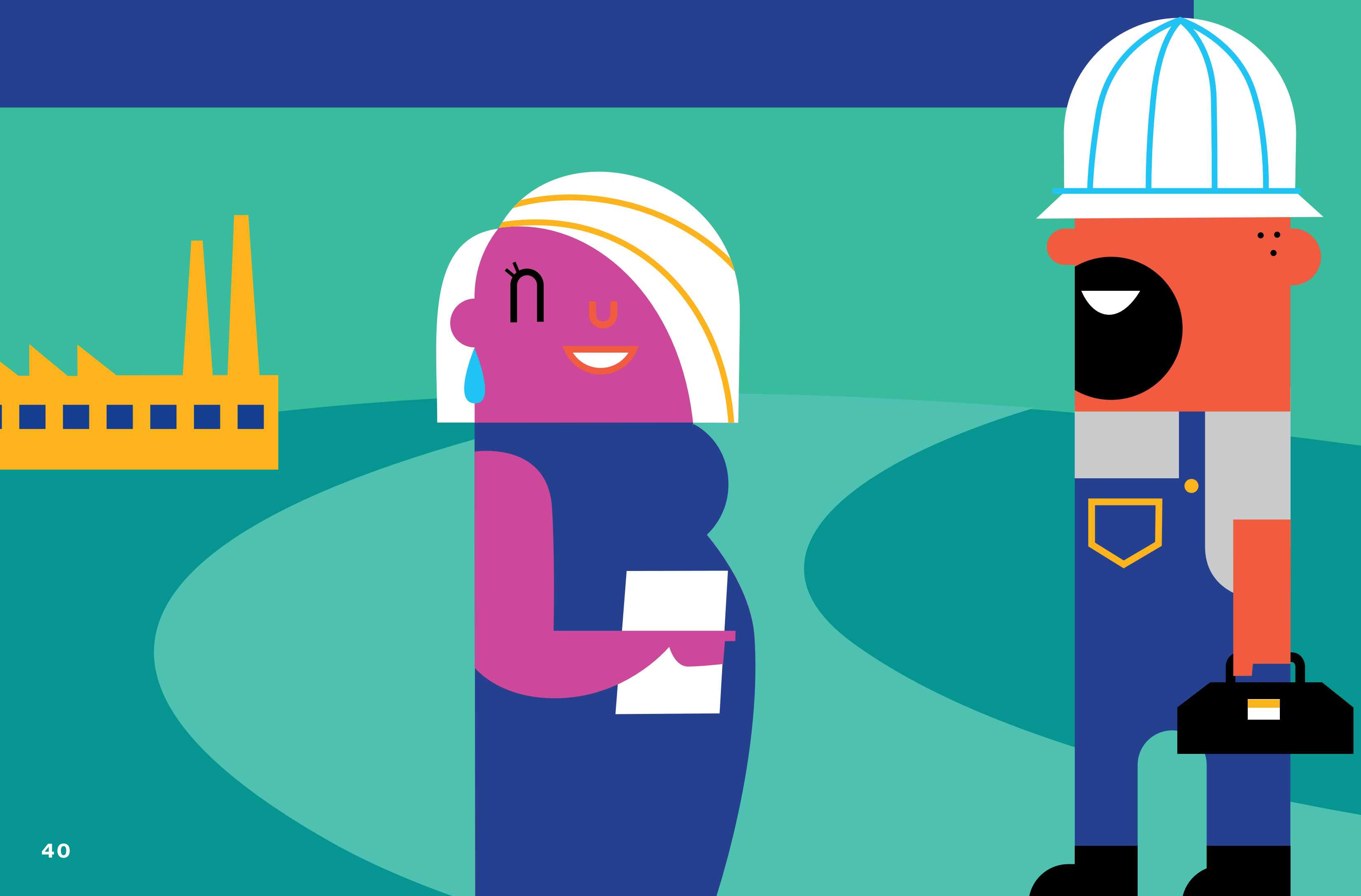
The continued development of technology and artificial intelligence could soon threaten millions of middle- and working-class American jobs. A growing chorus—one that is particularly loud in Silicon Valley—believes the government should implement a Universal Basic Income (UBI) for every American. The logic is clear: in a world where there is less work to go around, the government should guarantee every citizen a certain basic standard of living.

But the UBI completely ignores the importance of work—not just to our economy—but to an individual's sense of purpose and meaning and to the cohesiveness of our communities. A UBI is defeatist, accepting that a growing share of the population can't or won't work and assuming that Americans don't have the ingenuity to develop new jobs to replace the old ones. But that's exactly what Americans did when millions of people moved from the farms to the factories at the turn of the 20th century. And we can do it again.

America's great promise is fueled in large part by its economic growth. We should celebrate the spirit of entrepreneurship and the promise of free enterprise. But while risk-takers deserve to profit from their drive and vision, everyone needs to share in the fruits of America's bounty.

Grand Bargain to Grow the Economy:

Tax Reform and Infrastructure



IDEA SECTION FIVE

America's tax code is a disaster. Our infrastructure is falling behind—and often apart. For reasons of both politics and policy, the U.S. government can and should fix both problems *at once*.

The Big Picture

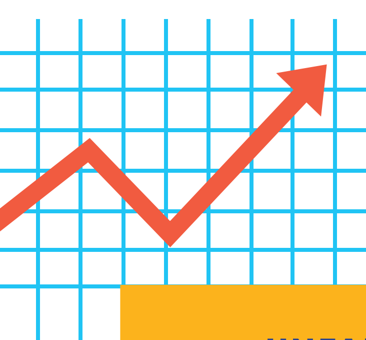
Taxes

For both individuals and businesses, the U.S. tax code is:

COMPLICATED

3X | The number of words in the U.S. Tax Code has more than tripled since 1975.

UNCOMPETITIVE



39.1% | The U.S. total corporate tax rate is the highest in the developed world. Even when factoring in various deductions and credits, the "effective tax rate" for U.S. companies is still the fourth highest among G-20 countries.

UNFAIR

Most of the benefits from tax expenditures (deductions, credits etc.) accrue to upper income individuals and corporations.

Infrastructure

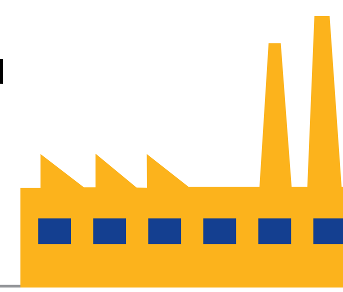
America's roads, bridges, public transportation systems, and electric and IT infrastructure are in increasingly poor condition.

D+

The report card grade given to U.S. infrastructure by the American Society for Civil Engineers.

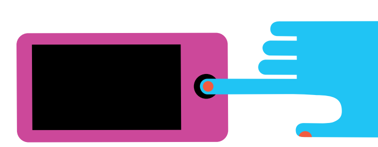
$5.2 Trillion

The cumulative gap between the expected funding and necessary funding for U.S. infrastructure by 2040.



28th

The U.S. global ranking in mobile internet speed.



Danger Ahead

55,000 bridges need significant repairs or replacement.

32% of America's major roads are in poor or mediocre condition.

The Problem

It begins and ends with economic growth. With more of it, virtually every challenge America faces—from stagnant incomes to a fraying social safety net and expanding budget deficit—is easier to solve. Without it, we have no chance.

For the last decade, U.S. GDP has grown about 2 percent per year; a full percentage point off our 3 percent post-WWII-average. For the next decade, the Congressional Budget Office (CBO) projects growth of just 1.8 percent.

Here is the challenge and opportunity. If economic growth is restored to 3 percent for the next decade, the U.S. will have 12 million more jobs and an economy that is $6 trillion larger than it is today and $2 trillion larger than the economy would be if the current CBO growth estimate holds.

Any U.S. policymaker interested in meeting this challenge must consider tax reform and infrastructure investment.

America's crumbling roads, bridges and tunnels and our complex and uncompetitive tax code are both huge barriers to investment and to hiring. Knocking these barriers down would provide a substantive boost to the economy.

Why tackle both of these challenges together? Because an infrastructure-tax deal has all the ingredients of the classic political grand bargain. It's both good politics and good policy.

Republicans badly want tax reform. Democrats want infrastructure.

Meanwhile, U.S. companies currently have over $2 trillion in untaxed corporate profits parked overseas. Tax reform could bring some of these funds back to the U.S., with the added tax revenue being used to fund infrastructure investment.

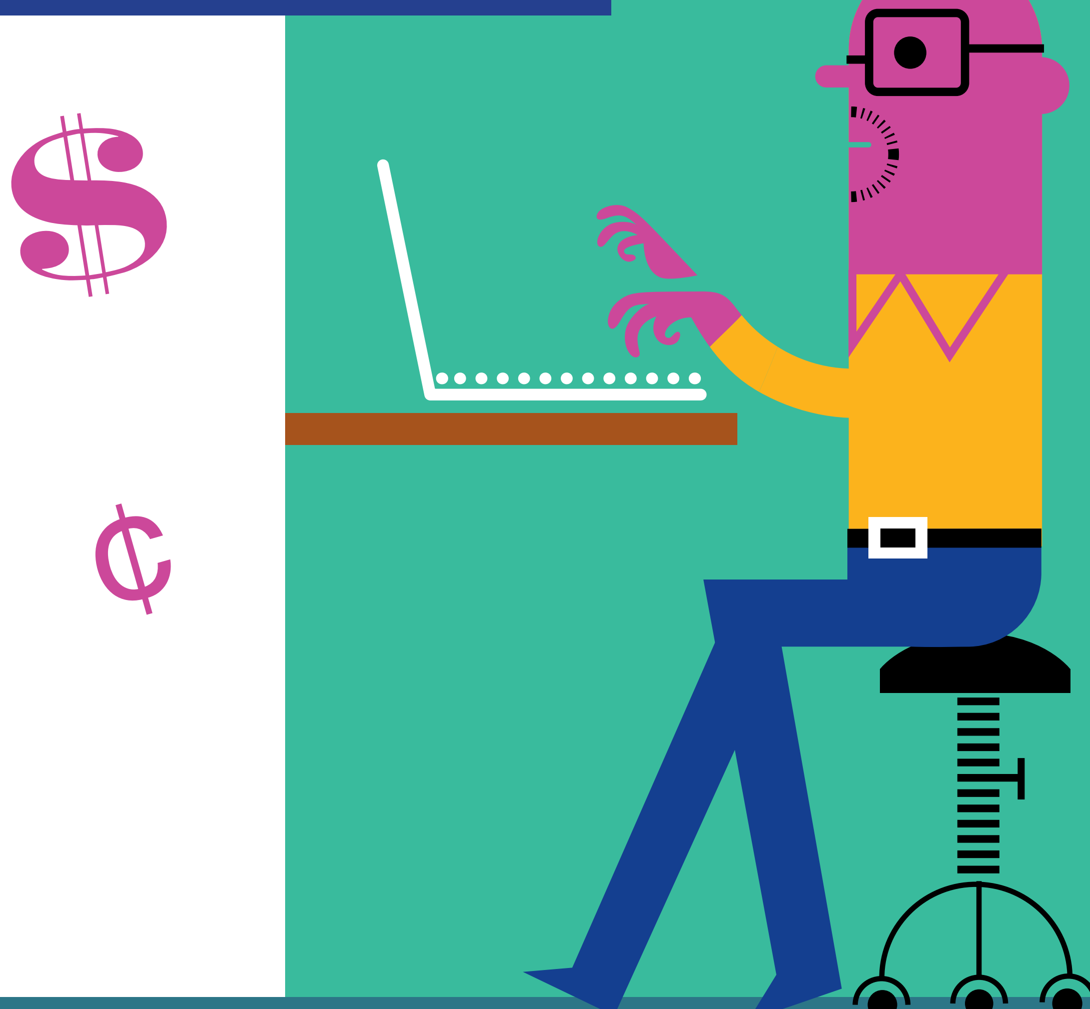
The New Center isn't the first to suggest this combination. In 2015, Rep. Paul Ryan (R-WI) and Sen. Chuck Schumer (D-NY)—now the U.S. Speaker of the House and Senate Minority Leader—were discussing a comprehensive tax-infrastructure deal. President Donald Trump has suggested he'd be open to a similar deal.

FACTORS

TAX AND INFRASTRUCTURE: MAINTENANCE DEFERRED

The United States is on track to underinvest in its infrastructure by approximately $1.1 trillion over the next 10 years.

The last major reform of federal tax law was in 1986. Congress has made over 15,000 changes to tax law in the years since.



Solutions

Taxes

The U.S. urgently needs tax reform that makes us the best place to invest and work. But our current code has at least two glaring flaws:

- It discourages investment in America and practically invites companies to game the system and invest abroad.
- It is unfair, with countless loopholes rewarding special interests at the expense of the public interest.

Any tax reform should focus above all on fixing these flaws. This is a priority that cannot wait. Sectors like medicine, energy, technology and transportation will soon be radically transformed. The only question is whether the transformation will be led by U.S. businesses and workers or by our competitors overseas.

In the next few years, companies will invest billions; much of it in capital-intensive projects with *multi-decade* time horizons.

If the U.S. misses this brief window to maintain our place as the best destination for investment and innovation, we will not get another shot. We will fall behind our competitors now and for years to come.

GUIDING PRINCIPLES FOR TAX REFORM

GOALS

Promote domestic economic growth and job creation by:

- Reducing incentives to move investments and profits overseas.
- Eliminating distortions in the tax code so individuals and corporations make decisions based on economic considerations rather than tax advantages or disadvantages.

DISTRIBUTION

- Ensure that the overall annual tax burden does not increase for lower- and middle-income families and—if possible—is reduced.
- Ensure that overall taxes for upper-income taxpayers remain at no less than current levels.

APPROACH

- Embrace the strategy used in the 1986 comprehensive tax reform of broadening the base (i.e. eliminating credits and deductions) of the tax code while lowering the rates.
- Treat income (e.g. salary, dividends, capital gains) from all sources equally—a key component of the 1986 comprehensive tax reform.
- Any tax reform package should include a dedicated stream of revenues (such as a tax on repatriated corporate profits) for infrastructure investment.

BUDGET

Refrain from increasing the annual budget deficits, which CBO estimates will add over $10 trillion to the national debt over the next decade.

Solutions

Infrastructure

Not only is America not building the infrastructure we will need for the next half-century; we are not even maintaining what we have built in the past half-century.

Our infrastructure needs are immense, and undoubtedly require more investment than public financing alone can provide. Any significant infrastructure package will require public and private financing.

But it will also require cutting through an incomprehensible morass of red tape, in which new infrastructure projects can sometimes require approval from literally dozens of federal, state and local agencies. Projects that take two years to build in Europe can take a decade or more in the U.S.

FINANCING

- New public funding for infrastructure should be paid for with funds from tax reform.
- Publicly owned infrastructure that creates residual cash flows comparable to private entities—such as airports, ports, toll roads and utilities—should be considered for transfer to private ownership, with sale proceeds used to reduce government deficits and liabilities or to reinvest in public infrastructure that does not appeal to private investors.
- User fees—such as a freight tax—should play an increased role in paying for public infrastructure.
- Innovative financing mechanisms—such as Build America Bonds, Private Activity Bonds and more institutional (e.g. pension fund) investment—should play an expanded role in financing new projects.
- Infrastructure investment should be opened to individuals, not just institutions, through steps such as creating equity instruments that allow individual investors to participate in infrastructure investment via mutual funds, ETFs and/or 401(k)s.

REGULATORY

A study by the reform group Common Good found that red-tape delays for infrastructure more than double the cost of large projects. Because state and local regulatory hurdles are often the primary barrier to building new infrastructure, federal infrastructure funding should be contingent upon states and localities streamlining their permitting and regulatory processes.

States should also be given more flexibility to spend federal infrastructure funding on the projects that they deem to be most important.

PROCESS

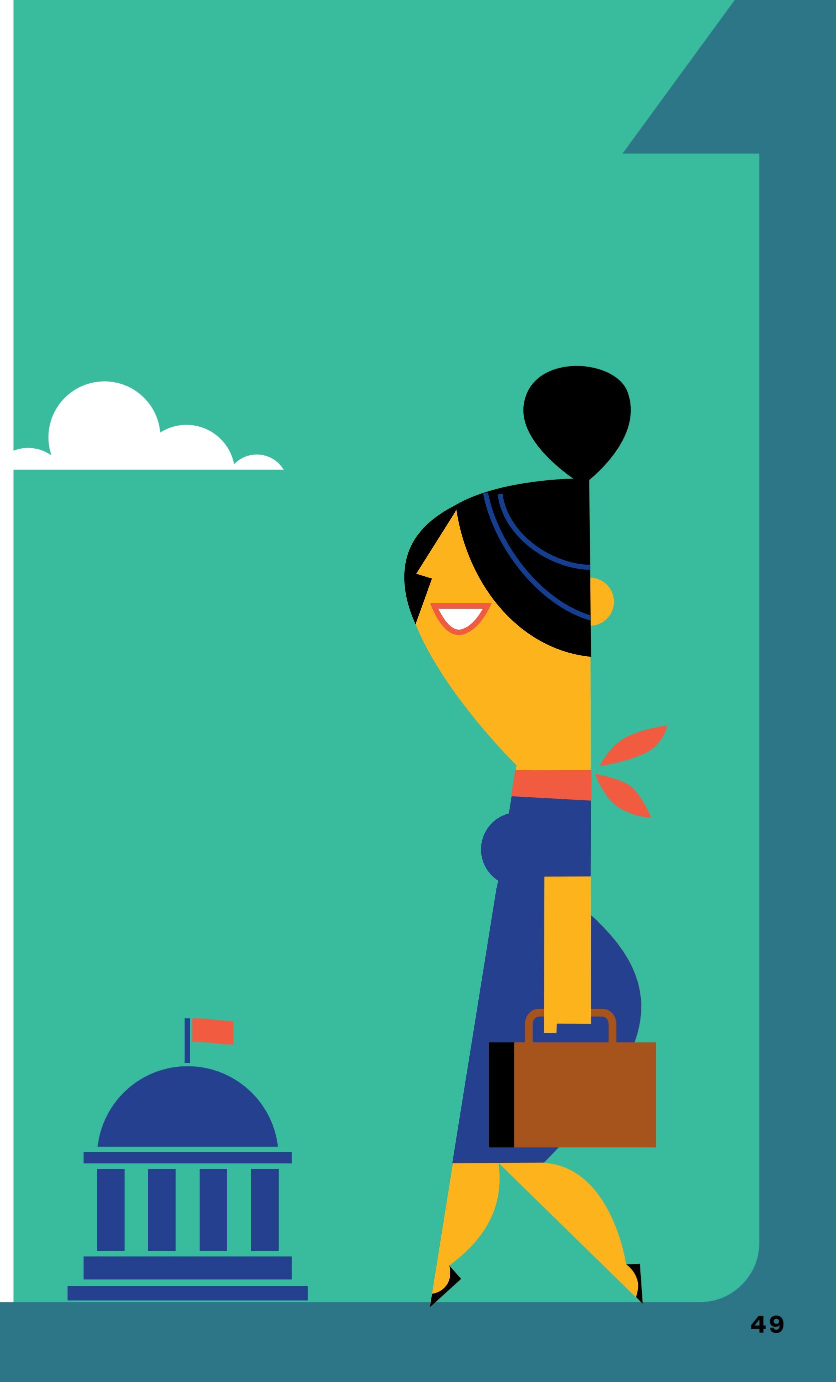
In a time of constrained resources, the federal government must develop better processes to focus investment on the infrastructure investments that are most essential to public safety and economic competitiveness.

BUDGETING

Congress should consider reforming the budgeting process (e.g. creating a capital budget), so the economic return of infrastructure investments is considered along with the cost for budget scoring purposes.

Infrastructure investment and tax reform are two tough priorities that are easier when done together.

It's good politics and good policy and there's a deal to be had if leaders in Washington are willing to make it.



New and Small Businesses: A Big Deal

IDEA SECTION SIX

When it comes to jobs, nothing is more important than new businesses—which account for all net new job creation in the United States.

But entrepreneurial activity in America is slowing, especially among younger Americans—the very people we hope will create tomorrow's fast-growing companies.

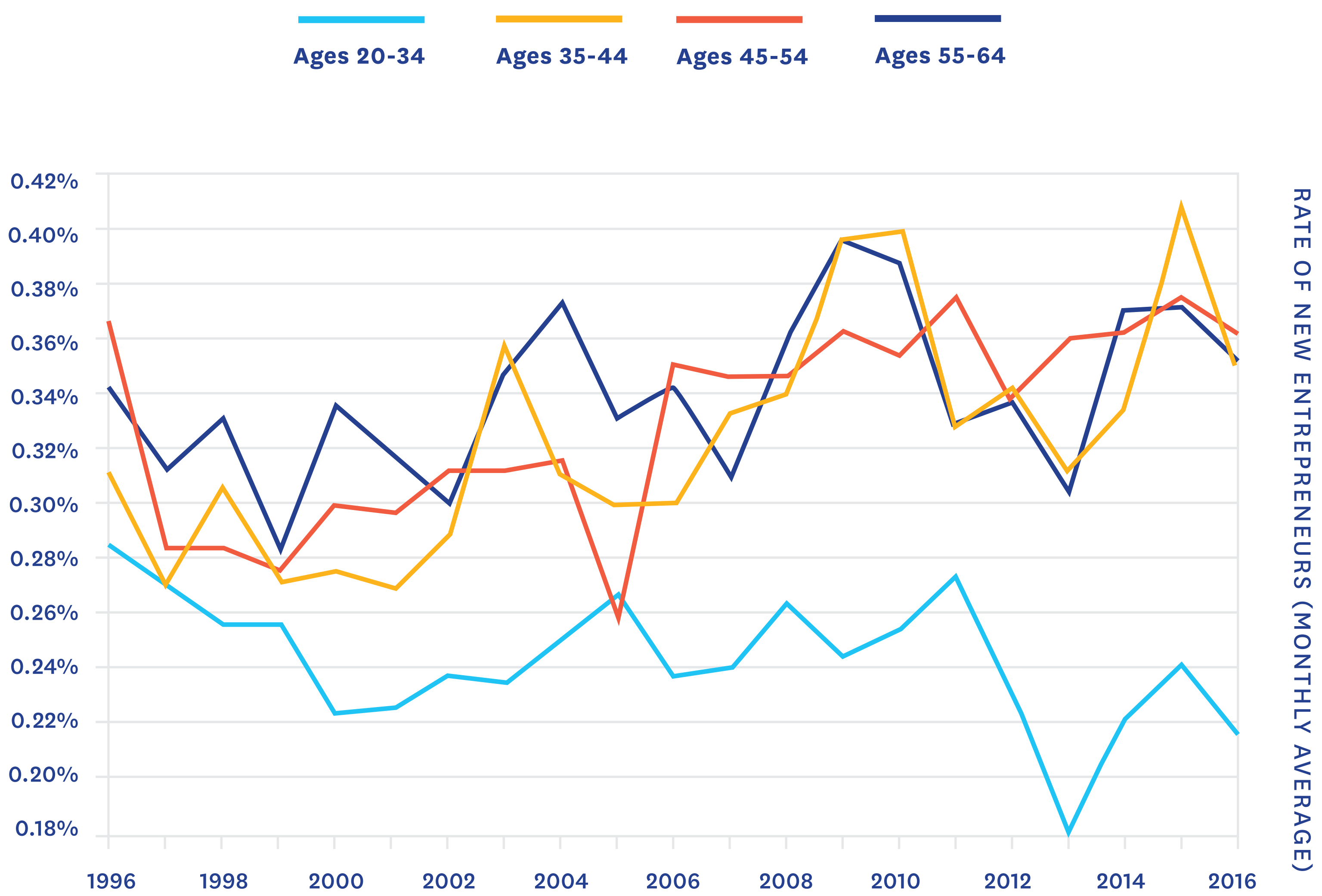
The Big Picture

France, Portugal, Romania, Panama, New Zealand, Kazakhstan and Belarus

According to the World Bank, these are among the 51 countries around the world where it is easier to start a business than the United States.

Millennials (aged 20-34) aren't starting nearly as many new enterprises today as earlier generations of young Americans.

RATE OF NEW ENTREPRENEURS BY AGE (1996-2016)



SOURCE: Kauffman Foundation calculations from CPS.

The Problem

The Great Recession of 2008 scarred a generation. Almost a decade later, many young people are too risk averse and financially insecure to start a business. But they aren't alone.

In the years following the Great Recession, more businesses were dying each year than were being born—the first time that has happened since researchers started collecting data in the 1970s. Although new business growth has picked up in recent years, it is still only about "half what it was a generation ago," according to the Kauffman Foundation.

New businesses are different from small businesses, though each is critical to the health of the U.S. economy.

New businesses start small but may one day potentially become big and employ thousands of people.

Small businesses—think your local dry cleaner—may never grow significantly, but they account for 55 percent of all jobs in the U.S.

Both new and small businesses are dealing with challenges—including difficulty getting credit and complying with ever increasing regulatory obligations—for which the New Center can and must have answers.

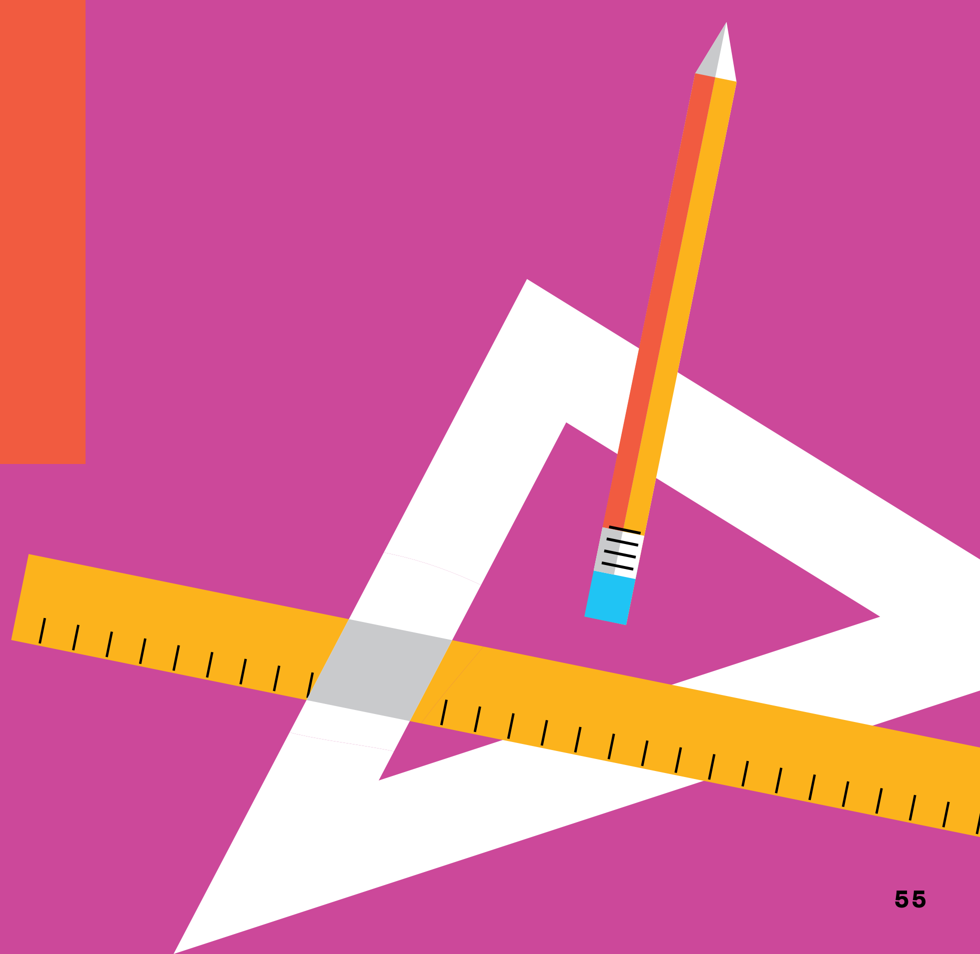
FACTORS

THE FINANCING CHALLENGE

- Though small business lending has rebounded in the aftermath of the Great Recession, it still isn't great. A Babson College study found small businesses are only obtaining, on average, half the credit they asked for from their lender.
- Personal savings is the top source of financing for new businesses. While the savings rate has increased recently, it is still well off historical highs.
- Venture capital funding—which provides the fuel for many high-growth new businesses—has tripled since 2009. That's the good news. Here's the bad news: More funding is going to fewer new ventures, and investors have become more hesitant to provide the initial financing (seed funding) necessary to get new ventures off the ground.

STRANGLED BY RED TAPE

New and small businesses can't hire the army of accountants, lawyers and compliance officers that big businesses rely on to stay ahead of the latest dictates coming from federal, state and local regulators. According to the U.S. Small Business Administration, regulatory compliance is estimated to cost small businesses over $10,000 per employee, 36 percent more than the cost to larger businesses.

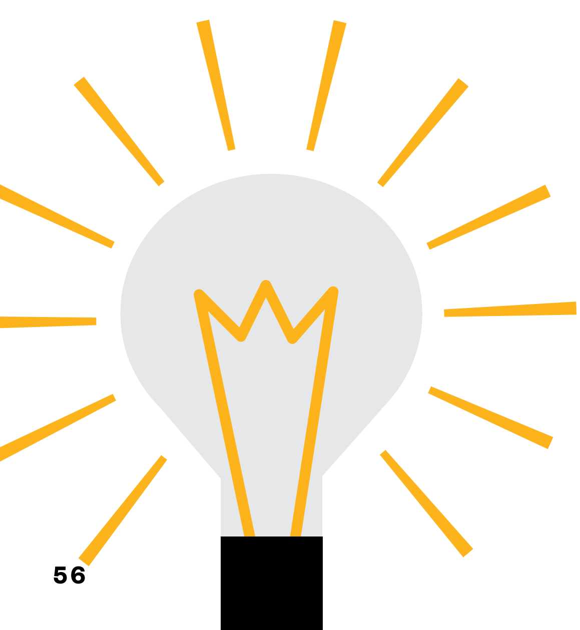


Solutions

Credit & Financing

DEAL WITH DODD-FRANK

The 2011 Dodd-Frank Act was supposed to curb the risky behavior of big financial institutions that contributed to the 2008 financial crisis. But this law has hurt community banks that had little role in causing the crisis but provide crucial lending to new and small businesses. Since the passage of Dodd-Frank, one in five banks has shut its doors. Congress should revise the provisions of Dodd-Frank that disproportionately harm community banks by depressing lending to new and small businesses.



GET THE CAPITAL TO WHERE THE JOBS ARE

The recently launched Center for American Entrepreneurship proposes several ideas to enhance entrepreneurs' access to capital and ability to invest, including:

- **Favorable Accounting:** Allow new businesses to use the cash method of accounting during their first five years of operation and permit 100 percent first-year expensing of business-related capital, equipment, off-the-shelf software and real estate.
- **More Flexible SBA lending:** Make Small Business Administration lending more readily available, less complex and cumbersome, less physical-asset-based, and less restrictive for new businesses.
- **Make R&D Pay:** One of the costliest expenditures for new business is research and development. Congress could help ease the pain of entrepreneurs by making more businesses eligible to claim the R&D tax credit and by allowing start-ups to carry forward operating losses and R&D credits.
- **Enhance Crowdfunding:** The Jumpstart Our Business Start-ups ("JOBS") Act was signed into law in April 2012 with the aim of enhancing new companies' access to capital. But there is broad consensus that many rules remain too restrictive and undermine new businesses' ability to use "crowdfunding"—a practice which enables entrepreneurs to solicit funding online from unaccredited investors. Congress should loosen these restrictions.
- **Assist the Angels:** Congress should make several technical changes to the tax code to incentivize more private "angel investors" to fund new businesses.

Rules & Regulations

A REGULATORY ROADMAP FOR ENTREPRENEURS

The federal government should develop a regulatory "roadmap" website that enables entrepreneurs to view all of the federal, state and local regulations that may affect their business.

REGULATORY IMPROVEMENT COMMISSION

The federal government has a comprehensive process to create new regulations. But its efforts to eliminate old and ineffective regulations often die amid a flurry of special interest lobbying. One way around this problem would be a bipartisan Regulatory Improvement Commission—modeled on the Base Realignment and Closure Commission convened to close military bases—whose members would be empowered to submit packages of regulatory reforms to Congress for up or down votes with no amendments allowed.

PREFERENTIAL REGULATORY FRAMEWORK

New businesses should only be subjected to the most essential product-safety, environmental, and worker-protection regulations during their first five years.

America won't have stronger economic growth in the future unless it acts fast to enhance entrepreneurship. New businesses create the new jobs our economy desperately needs.

A New Approach To Immigration

IDEA SECTION SEVEN

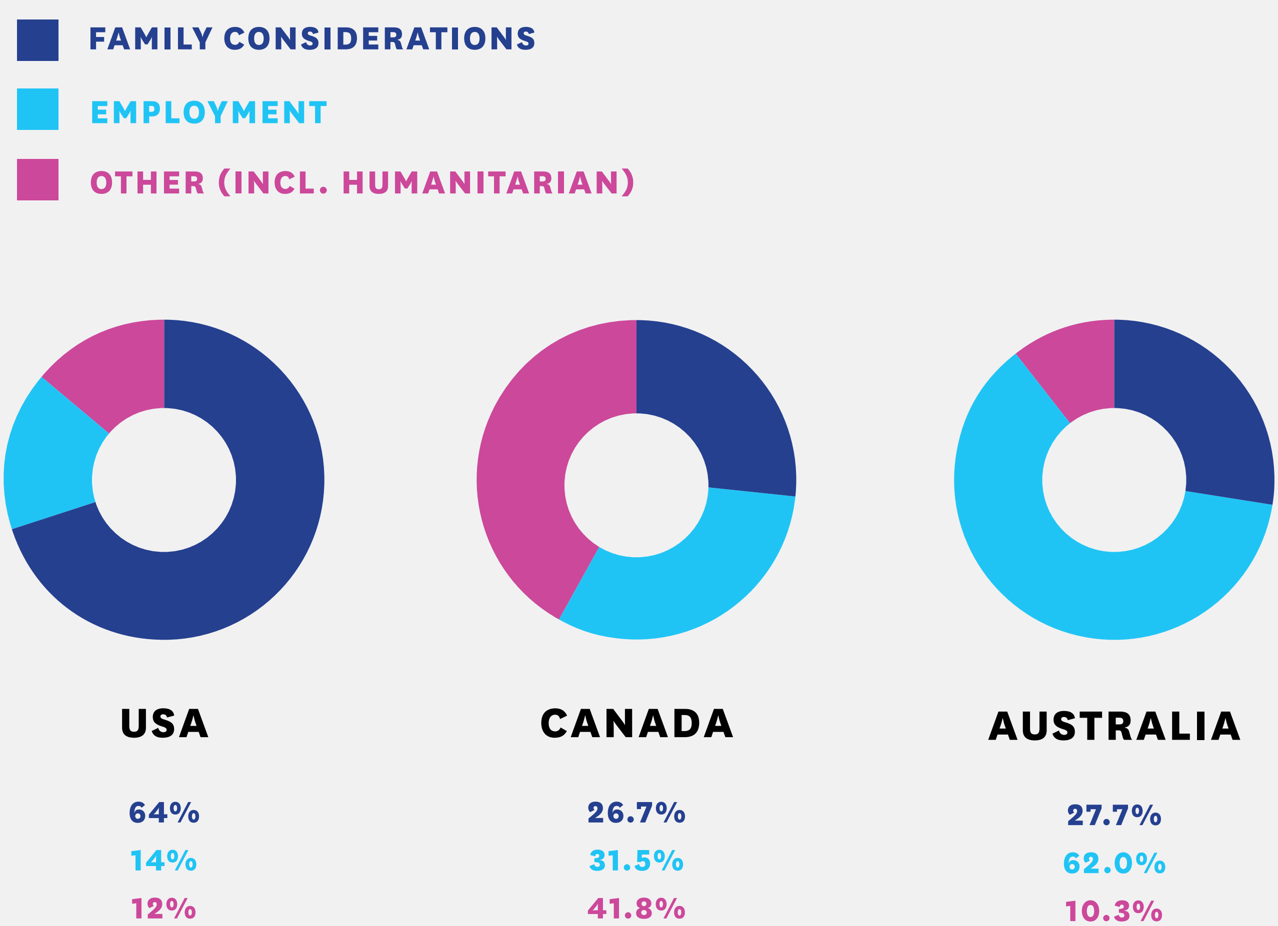
For years, Washington has failed to fix our broken immigration system. It's harming our economy. It's poisoning our politics.

The problem demands a solution.

The Big Picture

It's the key immigration question that confronts every nation: Who gets to come and why? In recent decades, the U.S. has embraced a very different answer than other advanced economies.

Justification For Admitting New Immigrants:

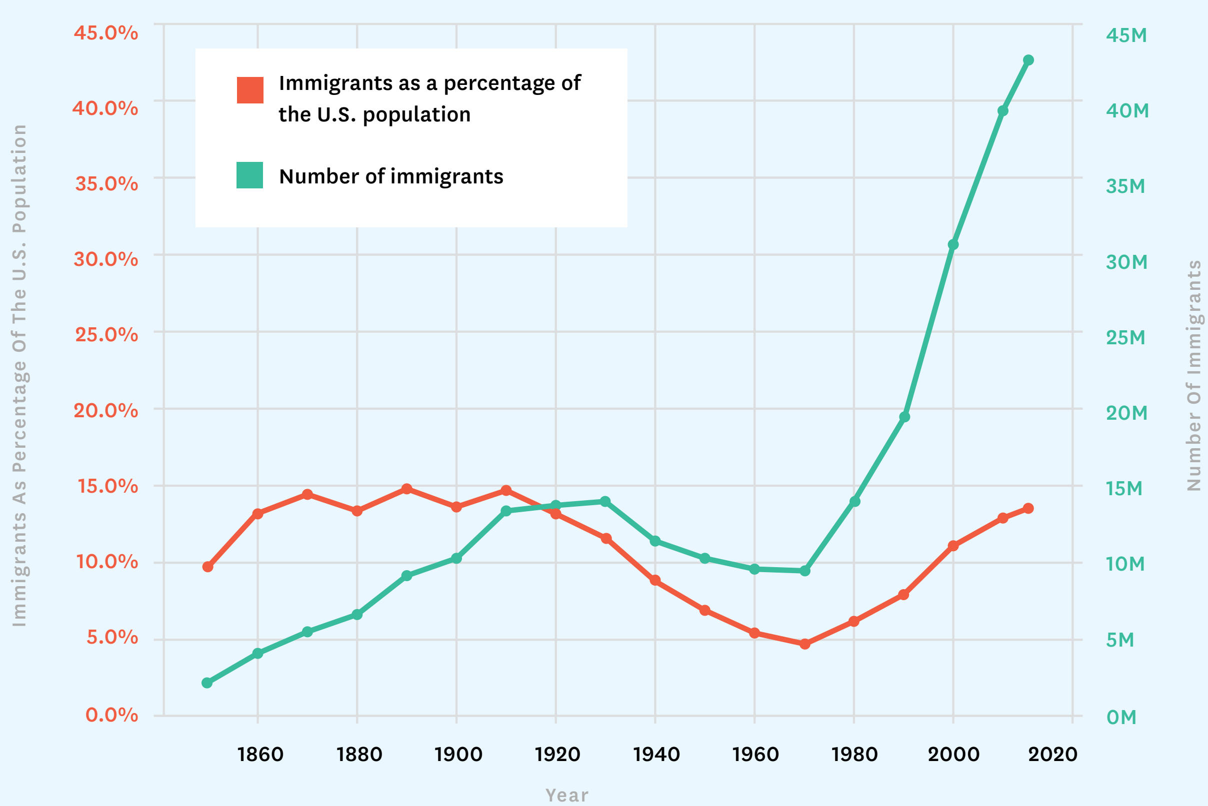


The Problem

The U.S. needs an approach to immigration that both resolves the status of the people who are already here and establishes a more thoughtful process for determining who should have an opportunity to immigrate in the years and decades to come.

Washington hasn't found the right answer because it hasn't asked the right questions. What is the best solution for American citizens? What immigration policies would best improve job opportunities, strengthen local communities and support the growth of our economy?

Number Of Immigrants And Their Share Of The Total U.S. Population, 1850-2015



Migration Policy Institute

FACTORS

Immigration has expanded rapidly in recent decades, which is in many respects beneficial. As with previous generations, new arrivals strengthen our economy and enrich our culture. But many Americans feel there is little rhyme or reason to how or why the federal government lets people enter our country. Washington's major challenge today is that our broken system—originally conceived in 1965—puts little emphasis on whether any given applicant would contribute to the nation's overall well-being.

America has always been a nation of immigrants. But immigrants come with different skill sets, aptitudes, and interests. How does our half-century-old system select which applicants can come in and which cannot? While many other industrial economies place a heavy emphasis on whether a prospective immigrant is likely to contribute to that nation's economy, America's immigration policy is currently based largely on family ties.

Washington has also done a poor job ensuring that approved immigrants arrive quickly and expeditiously—and that others are kept out. Moreover, the government continues to do a patchwork job determining who among those already living here should be sent back—and who should be permitted to stay.

Finally, the rapid increase in immigration has made it more difficult for new arrivals to assimilate into local communities. America has always welcomed newcomers and celebrated the diverse contributions they offer. But those afforded an opportunity to live in America need to embrace certain rhythms of American life.

THE IMMIGRATION CHALLENGE

11+ million immigrants are in the country illegally.

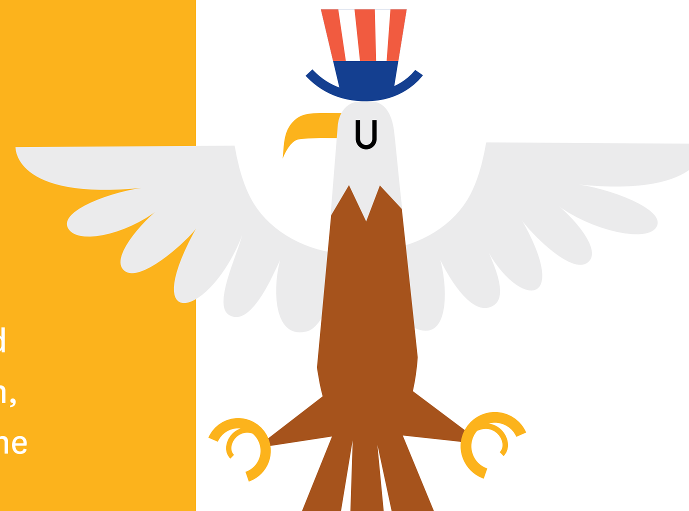
42% of undocumented immigrants arrived in the U.S. legally and overstayed their visa.

THE IMMIGRATION OPPORTUNITY

5.9 million Americans are employed by immigrant-owned small businesses.

More than 200 of the Fortune 500 companies were founded by an immigrant or child of an immigrant.

Solutions



In shaping immigration policy, the New Center should focus on the most important question: In the long run, what sort of immigration policy would most benefit the current citizens of the United States? The answer to that question has become increasingly clear.

SHIFT THE CRITERIA TO GIVE MORE WEIGHT TO ECONOMICS

Family relationships should continue playing a role in determining whether an applicant is given a visa to move to the U.S. But the government should learn from the experience of other countries that put a greater emphasis on whether an applicant is likely to fill a specific labor need, to start a business or to bring some other skill set likely to contribute to the U.S. economy.

STRENGTHEN ENFORCEMENT AT THE BORDER AND INSIDE THE COUNTRY

Washington is already working to keep smugglers from bringing illegal immigrants into the U.S.—and the authorities are making steady progress. While 1.8 million people crossed the border illegally in 2000, only 200,000 snuck across in 2015—a drop of 88 percent. But one of the best ways to discourage attempted illegal crossings is to prevent people from illegally obtaining work once they are here. Contemporary technology (e.g. E-Verify) can make it much easier to ensure that everyone who works any given job is authorized to do so. Washington should offer both carrots and sticks to encourage employers to utilize that technology.

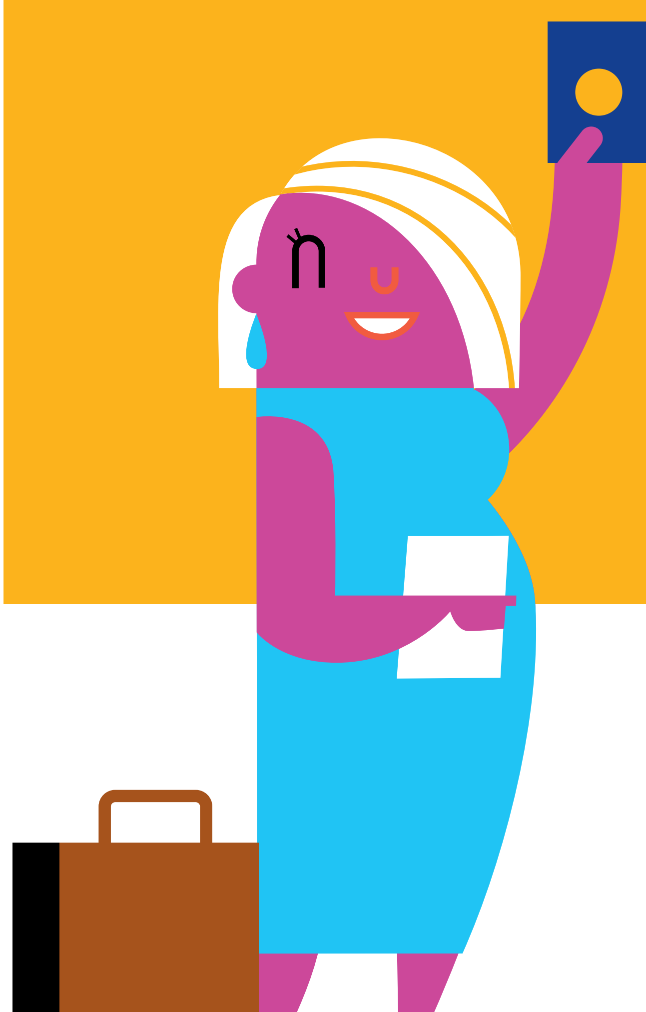
REIGNITE THE MELTING POT

Much as Americans celebrate the nation's diversity, those who live within the 50 states need to embrace American culture. Not everyone will learn to speak perfect English, but as with previous waves of immigrants, learning the language should be a rite of passage for those striving to assimilate. And except for special circumstances, basic English competence should be a requirement for completing the naturalization process and attaining U.S. citizenship.

COUPLE PERMANENT LEGAL STATUS FOR ILLEGAL IMMIGRANTS WITH MANDATORY TRACKING OF EXPIRED VISAS

Washington should promote a path to earned legal status and eventual citizenship for illegal immigrants in the United States who meet strict conditions such as learning English, paying back taxes and passing rigorous background checks. At the same time, the government should establish a mandatory tracking policy that uses technology to monitor expired visas.

It's been decades since policymakers took a wholesale look at the nation's immigration policy—and the old approach is now broken. America has always been and will always be a nation of immigrants. But if the system is going to help drive economic growth in the years and decades to come, Washington will need to embrace wide-ranging reforms.



The Center Can Hold

When the status quo fails, you must try something new.

Our political system no longer serves the broad majority of Americans who thrived when leaders from both sides of the aisle managed to solve problems together.

We must commit to re-centering America.

The ideas outlined here—all born from a commitment to the values of opportunity, security, ingenuity and accountability—are not the answer to every problem facing the U.S. But they can serve as the touchstone for a New Center. Not all of the proposals are new—but in the context of today's stale debates, they are remarkably fresh. Taken together, we hope they will open a jaded electorate to the prospect of a new possibility: a government poised to address the country's biggest challenges in a thoughtful, serious way.

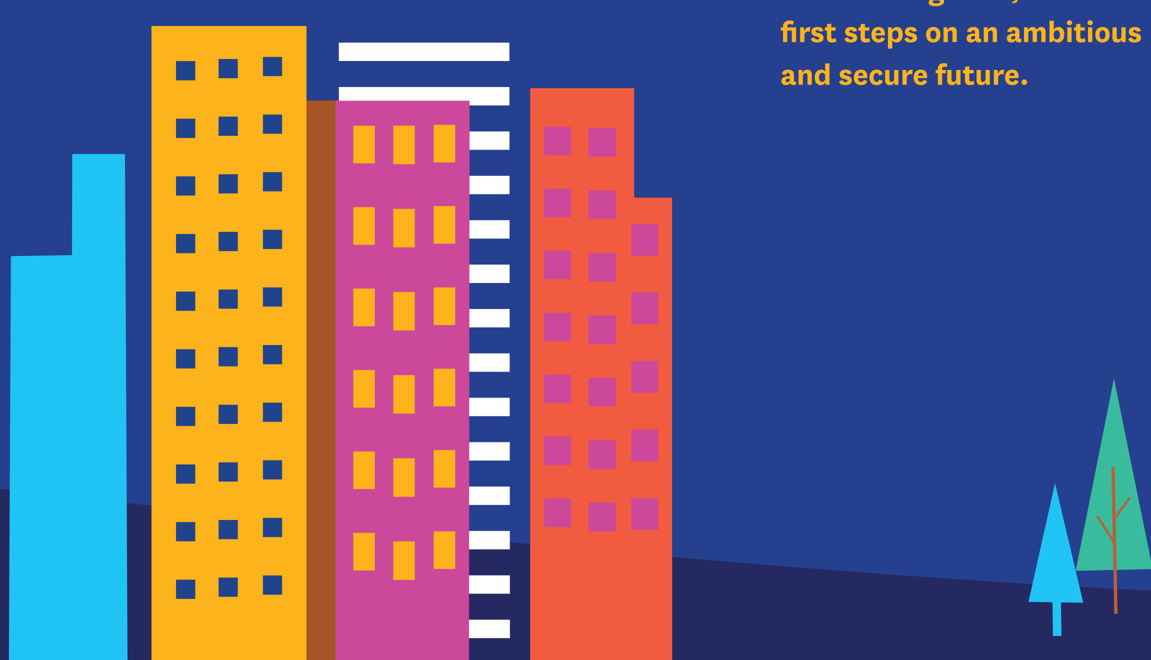
Nearly two decades in, we do not yet know how history will remember the 21st century. Will another superpower rise to challenge American preeminence? Will autocracy give democracy a run for its money? The answer to those questions will be answered in part by decisions made beyond America's borders. But the final outcome will be determined most powerfully by the decisions we make here at home.

- Will we maintain a system of free enterprise that harnesses the full power of American ingenuity?
- Will we invest in a workforce prepared to set the standard in hard work and savvy?
- Will we ensure that our greatest asset—namely our unique capacity to discover new solutions to questions large and small—is protected in the global marketplace?
- Will we nurture small and new businesses, the beating heart of the American economy?
- Will we continue to be both a nation of immigrants and a nation of laws?
- Will we ensure that every hard-working American is given an opportunity to enjoy the fruits of our shared prosperity?

The far Left and the far Right simply don't have good answers to these questions. The New Center does. Whether a viable center can re-emerge in America will depend on how committed citizens are to overcoming the powerful forces that are driving us apart.

Grievance is not a basis for governance. It is time for the vast political center in America to take back the initiative from the extremes who offer only more division and frustration.

With this agenda, the New Center presents the first steps on an ambitious path to a prosperous and secure future.



THE NEW CENTER

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